THE MAGAZINE OF WALL STREET

JANUARY 9, 1932

What's Ahead for Business in 1932?

By RONALD P. HARTWELL

Need We Fear the Passing of the Gold Standard?

By THEODORE M. KNAPPEN

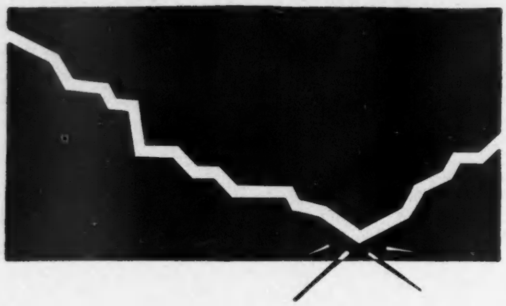
Ten Outstanding Investments for 1932

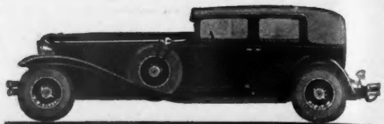
Selected by The Magazine of Wall Street's Staff

C. G. Wyckoff
PUBLISHER

VOL. 49 – No. 6

PRICE 35 CENTS





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Vol. 49 No. 6 January 9, 1932

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ADVERTISING REPRESENTATIVES—Atlanta, A. E. Christoffers, Walton Building; Pacific Coast, Simpson-Reilly, Union Oil Bldg., Los Angeles; Russ Building, San Francisco.

SUBSCRIPTION PRICE—$7.50 a year in advance. Foreign and Canadian $8.50. Please send International money order or U. S. Currency.

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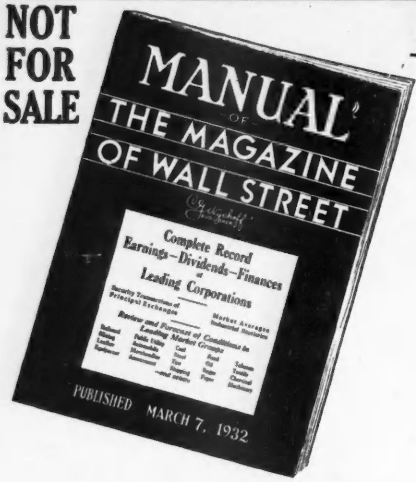

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WITH THE EDITORS

1932 Investing

THE opening of a new calendar year is the proverbial time for re-shaping policies and inaugurating new programs, and this applies to investment as much as any other phase of life. This year, moreover, the necessity for laying a new course is more urgent than usual. With the blackest year in the memory of most of us now closed we approach the new with every expectation that things cannot be worse and should improve. How shall we profit by a more favorable trend? How to recoup the losses which have been our lot? These are the questions besetting every investor as January, 1932, appears. They are pressing questions for it has become increasingly evident that a far different procedure than that which brought profitable results in the past must be employed for successful investing in the recovering phase of business.

In the first place if the gains in trade and industry are at the unspectacular slow pace, which is all that can be expected from the present outlook, the movements of the market will likewise be in narrow compass. Moreover a gradual pick-up does not suggest a simultaneous forward movement among all industries but rather a selective gain. Such conditions necessitate a constant study of the trends of industry in order to make commitments only in those in the most favorable position for a forward movement.

Having determined such industries the selection of companies will be less difficult; for the depression itself has afforded a critical testing laboratory. That is, managements which have guided their companies successfully through the dire period of the past two years and have demonstrated the profits are possible in the fact of reluctant buying and falling prices must be highly regarded. They are the type to follow in formulating the 1932 program; provided, of course, that successful depression performance is coupled with present financial strength. New financing will not be easy in the months ahead and absence of early maturing obligations and current resources suggestive of ability to carry through the reconstruction days are additional earmarks which this year's investor will resolve to observe.

Successful investment will not alone be founded on proper selection. In other words the early stage of recovery is no time to buy stocks, or bonds either for that matter, and forget them. Profitable operations will attend only on vigilance. The upward path will not be free from setbacks nor will reviving business insure stability. Many readjustments will occur and it may prove profitable at various times in the year to jettison some issues when the clouds gather, in order to take on those with more favorable nearby prospects.

Admittedly, the proper consideration and observance of all of these factors do not make the investment program anything but an easy one in the months to come; but to the investor who makes continued alertness for opportunities and careful watching of all commitments his primary New Year's resolution it will mean more attractive income than has been possible in a decade and a full measure of profit.

In the Next Issue

The Irony of Business Seeking Government Management

By John C. Cresswill

This critical analysis of the proposed Reconstruction Corporation will consider both its strength and weakness. It will show what aid business may expect from it in the months to come.

Tighter Money Forecasts Better Times

By Ronald P. Hartwell

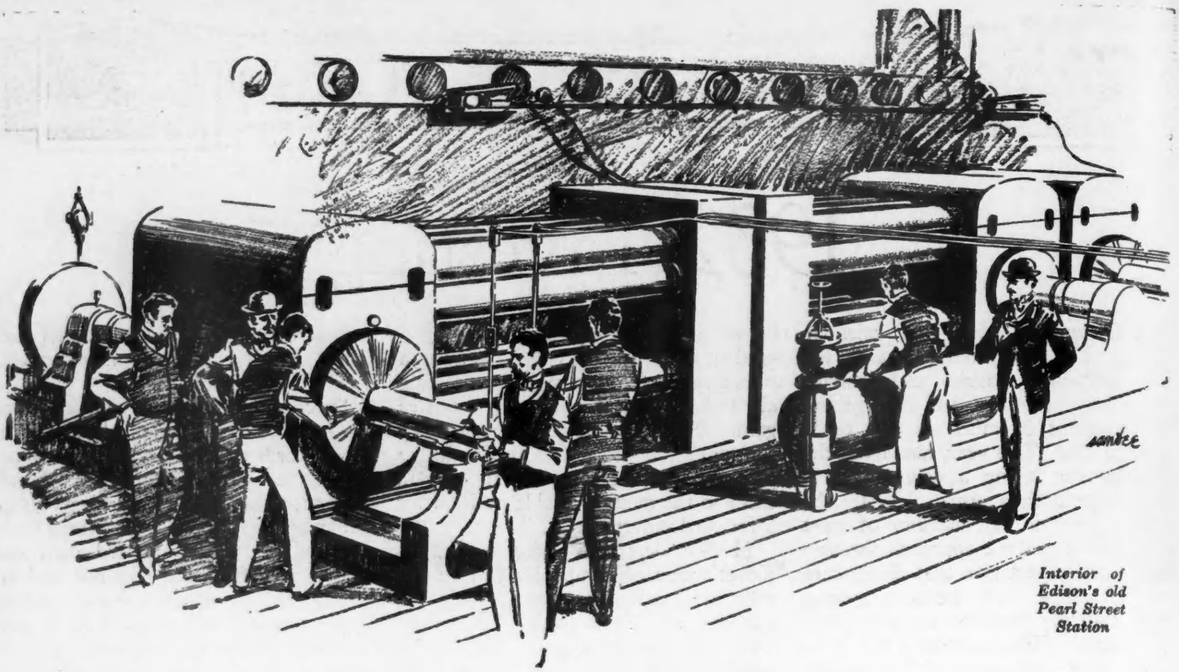
The significance of prospective higher interest rates to trade and industry.

The Strongest Stocks in the Industry Which Will Be Among the First to Reflect General Improvement

By J. C. Clifford

Don't Miss "The Market's Next Move"

By A. T. Miller



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Investment and Business Trend

Put On the Brakes—Disappointing Commodities—No Free Trade for Us—Receivership Benefits—Watch the Percentages—Cost of Living Index — The Market Prospect — Wise Old Europe

PUT ON THE BRAKES!

DELUSION dies hard at Washington. It has taken politicians more than two years to concede that 1929 wages can not be maintained, and additional time no doubt will elapse before they get around to reducing their own salaries. In terms of real wages the public is paying them a premium of at least 15 per cent over 1929. To say the least, the return service seems scarcely adequate. At the moment it consists largely of the strenuous efforts of Congressmen to out-do each other in proposing huge bond issues to finance "relief" schemes of one kind or another.

It is time to step on this dangerous nonsense. The public credit has a limit just as surely and definitely as has the credit of an individual. The prospect of irresponsible Government spending and borrowing has already caused a serious depreciation in prices of Government bonds. The attempt to carry through half of the schemes now proposed would actually endanger Government credit. The faith which Congressmen show in the American investor is pathetic—but it is not reciprocated. Some borrowing is necessary, but it can be done to advantage only if Uncle Sam first goes the limit to close the budget gap by reducing expenditures and by raising taxes.

DISAPPOINTING COMMODITIES

THE accepted indexes of commodity prices, after fluctuating within a relatively narrow range since last May, have again broken down in fresh decline. Thus ends the period of stability which had lasted long enough to set up the apparently plausible hope that the drearily protracted downtrend had been definitely halted. It was a hope further bolstered by the fact that the level of seeming resistance coincided, on the average, with the price line of 1913. That level marks a complete, average cancellation of the war era inflation. That we have now gone still lower is disappointing. An important measure of comfort can be had, however, in the fact that the net decline for 1931 was only half that of 1930, the retarded rate of recession suggesting that bottom can hardly be much further down. Moreover, any additional decline probably will be of less importance in its general scope than in its correction of the wide maladjustments now existing as between different commodities. It is to be hoped that the widest gap will be filled by some recovery in farm prices and by further recession in manufactured goods. The relation of the recent decline to general business is doubtful. In all past depression business has usually turned up-

ward before commodity prices were completely adjusted.

NO FREE TRADE FOR US

INSTEAD of deserting protectionism at this time what the United States should do is to perfect it. When the dominant classes of Britain elected a free trade policy they deliberately sacrificed the agricultural interest and instead of sharing the fruits of their triumphant industrialism with the laboring classes reduced them to long hours of deadly toil, at starvation wages under hideous working conditions and living environments. We, in following protection as the chosen national policy, should make it universally applicable and beneficial. All tariff revisions should aim at correcting inequalities in form and practice. The farmers should be protected in fact as well as in words, and no group of workers should profit at the expense of others. Whether we like it or not we are in for a period of international trade war and economic aloofness. We have here at home a good-sized world of our own and we should administer and protect it for the benefit of every region and all economic groups.

RECEIVERSHIP BENEFITS

THE average investor fears corporate receivership as he would the plague, apparently regarding it as necessarily involving the loss of all, or almost all, of his equity. Such fear played a part in the demoralized decline of the bond market during the closing months of 1931. Yet receivership is not a business death. It is in a great many instances the means of a business rejuvenation. It is the simplest and most effective way of relieving a company of burdens impossible to carry and of restoring its finances to a condition of health. Some of our strongest companies, such as Atchison, for example, are the outcome of receiverships.

A receiver's first act usually is to apply a company's gross income as far as possible to the building up of its properties, if that is necessary, or to strengthening its liquid position. The final step usually is a reorganization and a scaling down of capital obligations in order that fixed charges may be earned under existing conditions. In a typical case of a railway receivership, first mortgage bonds will not be disturbed as to either principle or interest. Junior bonds may be cut in half and exchanged for new securities. Stockholders may be assessed if they wish to participate in the revived enterprise.

Before taking fright in such a situation every security owner should carefully consider market quotations on his holdings in actual relationship to the prospect. It will usually be found that the company's bonds have more than discounted the equity loss that reorganization will involve, with the result that recapitalization actually improves the bondholder's position. The course of stockholders called upon for assessment must be guided by individual circumstances. In the case of large companies in essential fields, such as a railroad, stockholders often have benefited handsomely from the additional investment.

WATCH THE PERCENTAGE

IN looking back upon the roaring bull market of 1929 most of us, if we are honest, will admit that we let greed run away with us. We looked upon a 5- or 10-point profit in a stock as "chicken feed." Even under present sober conditions it is difficult for the speculator to maintain a clear perspective. He is still inclined to think in points and to forget that money does not grow on trees and that it can not be made without effort and patience. In the present drab market an excellent rule for both traders and investors to follow would be to measure the fluctuation of prices in terms of percentage, in order that hopes may not be foolishly lifted into the clouds. A 2-point advance may seem a trifle, but on a $10 stock it would amount to 20 per cent and that, being approximately four times the return that could be had from a high grade bond or a prime first mortgage over a period of a year, is really a fat profit. It should be so considered by those who entertain any delusion that low priced stocks should be expected to double or triple in value on the first good rally. Conversely, the danger of large percentage decline is still very great in many of the issues which look cheap in points.

COST OF LIVING INDEX

ANY man whose wages or salary are the same in money as they were two years ago has really enjoyed a salary increase. That is because he can buy with his salary about 15 per cent more of food, clothing, rent, etc., than he could two years ago. By the same token any man whose income has been reduced 15 per cent has not suffered a reduction of real pay. Real income is what counts. But while there are many millions whose real income has not been altered, there are some seven millions who have lost all income. This inequity delays that readjustment of the economic machine, which must be attained before it will be again in good running order. The general adoption of wage scales definitely related to living costs, which are closely related to production costs, would afford an elastic real compensation, and would avoid ruinous struggles between employers and employees which seem otherwise inevitable.

THE MARKET PROSPECT

OUR most recent investment advice will be found in the discussion of the prospective trend of the market on page 320. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue.

Monday, January 4, 1932.

WISE OLD EUROPE

LOOKING back over a long life, which seemed a very strenuous and trying one as it was lived, an old lady remarked that the greatest trials she experienced were those that didn't materialize.

We think that the direct catastrophes of the present depression are those that will not happen.

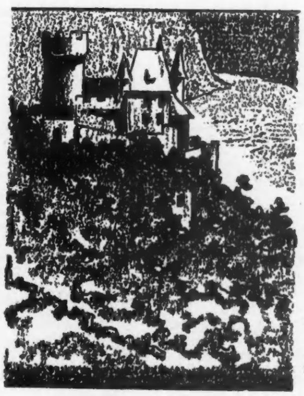
Just now the whole world is all set—or seems to be—for the utter collapse of Germany some time in February. This impending catastrophe is to follow the momentous future refusal of France to approve a sufficient moratorium for Germany.

The prospective catastrophe which is already harrowing our feelings and shaking us with premonitory chills will not happen because:

1. France will "come across" at the coming conference of the reparations powers to deal with the reparations problem in its new and acute form.
2. Even if she should not do so, she will not apply the sanctions of the Treaty of Versailles and march into Germany.
3. The Hitlerites, if they do come into power will prove to have been sheep in wolves' skins.

We make this triple assertion largely on our knowledge of European mentality and sentimentality. Those peoples are profoundly different from us; they neither act or react collectively as we would under a given set of circumstances.

If we were transferred to Germany and felt as aggrieved and as desperate as the Germans tell us they do, we would mean what we said if we threatened revolution at home and war against the foreign oppressor. In fact, we would have got into action long ago. We would have served an ultimatum on the reparations powers and followed it up with prompt and vigorous action. Germany has been whining and weeping, growling and threatening for some ten years and the nearest she has come to action was a few ridiculous putsches and the mobbing of some Rhineland separatists—after the French troops were safely across the Rhine. The curious intimacy between the howling Hitlerites and the stodgy German industrialists smells of propaganda and stage-setting. Hitler is a good stage lion for the benefit of the outside world, who can be turned into a reliable draft horse if internal conditions demand after his mimic roars have done their part abroad. We suspect that when all is over and Germany gets through her starving to death with no fatalities the Communists will find that they are the only ones who have lost anything. Unwittingly perhaps, they too, will be mobilized in the grand national stage setting for the edification of France and Italy, especially the latter, with her liking for Facists and her horror of Communists.



France has from time to time breathed horrid warnings of what she would do to Germany if the latter did not pay up on the spot. Well, France did march into the Ruhr, but later she not only marched out, but, quite sensibly, even out of that part of Germany where she had the treaty right to remain until 1935.

We must remember that Europe is very old. She has the sound and selfish common-sense of age. The old as well as the young can do foolish things, but the old are not apt to err from an excess of zeal or sentiment. We are young, full of steam, mercurial and impulsive. We are prone to do our thinking after the fact. Europeans are given to cool calculation and methodical thought before the fact. They confine their emotionalism to harmless even if furious gestures. They can throw a violent fit and then sit down and solve their problems in terms of profit and loss.

So, after much bowing and scraping and some theatrical clashes and dire threats at Lausanne and perhaps at Paris and Berlin it will be found that the hard-headed French, after having figured out just how much they can get out of Germany now with due regard to the preservation of Germany for future milking, will bluff for more but settle at that. They haven't the slightest idea of impairing their power and prestige by offensive war. The French are sitting pretty and they have a great and moving desire to continue in that comfortable posture. They would suffer more from war than any other nation, whether defeated or victorious. Germany is their best customer. Conquered and dismembered, she would be a costly liability. They are too strong for milking the cow to want a dead cow. Actually, they would welcome German economic revival, political considerations being respected. They can get along with reduced reparation annuities or even none at all. When it comes to the dotted lines it will be found that France has served her immediate self interest to the limit without imperilling the future and that Germany will have such a moratorium and even revision of reparations as she can and should stand. The reception accorded in France to the report of the Young Plan Committee and intimations of concurrence with the British suggestion of a two-yeai moratorium shows how closely France is watching her step.

So we confidently predict that the reparations question will be negotiated into abeyance for a long time if not finally settled in the near future, that there will be no Hitler revolution in Germany and that our sufferings from the handsomely promoted German collapse are entirely present and anticipatory.

Neither the German industrialists nor the Hitlerites have any thought of smashing the great industrial edifice that Germany built up by the torture of inflation and the kind co-operation of competitors turned creditors. They have the common hope that it will yet give Germany an imperial industrial eminence outshining the military ascendancy of the Kaisers. Both are playing for a free field for this industrial mechanism—elimination of reparations, quittance of taxes and lowered foreign tariffs. With the limit attained the wailing will cease and business start.

Market Ready to Go

First Signs of Business Betterment Will Find Quick Reflection in Price Trend — Purchase Opportunities Currently Afforded

By A. T. Miller

COMPLETION of tax-selling and the lifting of other sources of pressure normal at the year-end have given the stock market and the financial community a somewhat more comfortable feeling. The mere turn of the year itself accounts for a slightly more cheerful sentiment, probably reflecting an almost instinctive Wall Street view that 1932 can hardly be as disastrous a year as 1931 and very likely will be at least moderately better.

It is too early in the year, of course, to look for any more tangible change than this. All that the market can be expected to reveal in the early future is whether the major liquidating movement has been checked for the time being, with bottom for some time to come—and perhaps permanently—represented by the low prices of December.

As far as can be seen now, there is no reason to anticipate further serious relapse at this season. In the domestic situation, January does not promise any startling news developments. Logically, it should find the security markets committed to a policy of watchful waiting and relatively narrow fluctuation as we study the budding, seasonal business gains which should soon appear.

Barring unexpected and unsettling developments, these gains should serve the useful function of contributing to a further improvement in sentiment, although it can hardly be determined before March whether in the aggregate they will throw any significant light upon the underlying business prospect.

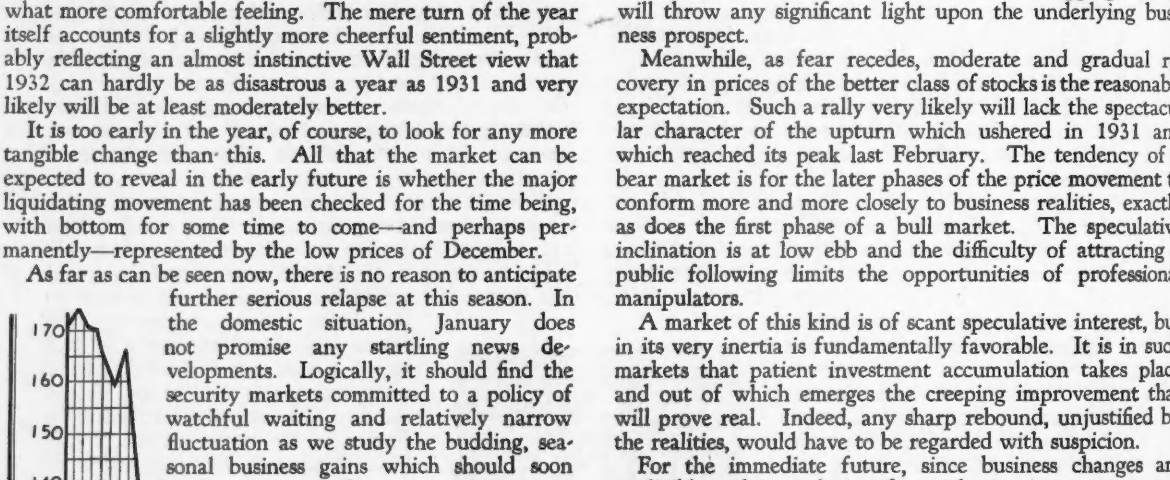
Meanwhile, as fear recedes, moderate and gradual recovery in prices of the better class of stocks is the reasonable expectation. Such a rally very likely will lack the spectacular character of the upturn which ushered in 1931 and which reached its peak last February. The tendency of a bear market is for the later phases of the price movement to conform more and more closely to business realities, exactly as does the first phase of a bull market. The speculative inclination is at low ebb and the difficulty of attracting a public following limits the opportunities of professional manipulators.

A market of this kind is of scant speculative interest, but in its very inertia is fundamentally favorable. It is in such markets that patient investment accumulation takes place and out of which emerges the creeping improvement that will prove real. Indeed, any sharp rebound, unjustified by the realities, would have to be regarded with suspicion.

For the immediate future, since business changes are negligible and inconclusive, financial attention centers upon the possible external news developments. Foremost among these is the approaching international conference on the problem of German reparations, which inevitably involves consideration of the debts Europe owes this country.

Present indications are that the United States will not be a party to this conference. While President Hoover, in proposing the existing one-year moratorium, tacitly admitted a practical relationship between reparations and the debts owed us, Congress has expressed determined opposition against any cancellation or revision of those debts.

The attitude of our politicians is that the American Public should not and will not stand the loss which either cancellation or revision would involve. In looking toward a solution it must be remembered that



the politicians of the European nations also have the tricky matter of public opinion to contend with.

The Debt Issue is Clearly Drawn

The issue now so clearly drawn between the United States on one side and Europe on the other is debatable. We are clearly entitled to payment of the debts, but the practical problem—and the phase of the matter least understood by the average person—is that the difficulty is not essentially one of the capacity of Europe to pay but of the inability of the opposing forces to meet on a common ground of exchange. International payments can only be made in gold, goods or services. Europe has not the gold with which to pay and we do not need more gold anyway. We do not want to buy European goods or services, having at present more of our own than there is a demand for.

> ***"As far as can be seen now, there is no reason to anticipate further serious relapse at this season. In the domestic situation, January does not promise any startling news developments. Logically, it should find the securities markets committed to a policy of watchful waiting and relatively narrow fluctuation as we study the seasonal business gains which should soon appear. As fear recedes, moderate and gradual recovery in prices of the better class of stocks is the reasonable expectation."***

It is perhaps conceivable that the stalemate may eventually be broken by hitting upon some novel means of payment. We do not want territory, but it might be possible to accept economic concessions of one kind or another.

Meanwhile the next move is left in the hands of France and England, particularly the former. If neither Europe nor this country will recede an iota from their present positions, the drift of events is inexorably toward a general European default on her foreign obligations. The only alternative—and the one which appears most logical and practical—would be an extension of the moratorium and an agreement to reconsider the entire problem at a time when economic conditions are more normal.

The question is being discussed at this length here because it is undoubtedly one of the current factors of important stock market influence. One hears harrowing Wall Street conjectures as to a crash in Germany and possible disastrous effects upon our markets. The Germans are a practical people. We do not believe they will commit financial and commercial suicide. At worst we believe their frank declaration of inability to pay would result in no more than a forced extension of the present moratorium.

Foreign Fear Exaggerated

We are not at the moment receiving any European debt payments. If we were receiving them the total annually would constitute the most inconsequential, fractional part of our national income. In short, our fear of European disaster, or of its effects upon us, has been wildly exaggerated. Moreover, it has long been with us and for months the stock market has been taking it into account. Accordingly, an actual default probably would relieve the present tension and awaken us to the fact that American business and the American people will quietly go on living, producing and exchanging as usual.

Domestically, the market is vitally interested in those Washington developments which bear most directly upon the depression. One of the most important problems, to which the public apparently is not yet fully awake, is that of governmental finance, particularly the Federal budget.

The sound way to meet the growing Federal deficit is to cut expenses as far as possible and to raise taxes as high as necessary, but these are painful steps at which politicians shy, and there is grave danger that they will resort to excessive borrowing by means of bond issues. There is no blinking the fact that the national credit may actually be endangered, for investment fear already is plainly reflected in declining prices for United States Government bonds.

The more bonds are floated, the more interest rates will have to go up and the more prices will go down. Such a development, at best, would restrain the stock market and would add seriously to the difficulties of the banks and insurance companies whose chief reliance is upon their holdings of Government bonds. On the other hand, fresh confidence will be instilled into the markets if Congress can bring itself to meet the issue with courageous common sense.

At this writing it appears probable that the $2,000,000,000 Reconstruction Corporation advocated by President Hoover will be approved by Congress and quickly established, although much uncertainty remains as to its final form and as to the details of its operation. Financial opinion, impressed by the record of the War Finance Corporation, appears to be overwhelmingly in favor of the proposed experiment.

The admitted purpose of the plan is to soften deflationary tendencies, which is as much as to say that it is expected to be at least mildly inflationary. The Corporation would lend money, obtained on Government credit, the funds to be applied in strategic spots. The beneficiaries might include certain railroads, banks or other corporations. It is quite likely that the agricultural representation in Congress will make strenuous efforts to bring the farmer into the scheme of relief in one way or another.

The net effect would be to transfer to the shoulders of Government credit part of the financial load now being carried at private financial embarrassment. Whether this is sound in principle is by no means clear. If it be conceded, as it probably must be, that the general economic position has been deflated to a point justifying a turn, no one will object to a bit of inflation. Actual success or failure of the plan will only be determined over a period of years. There is unlikely to be any general upward trend of commodity prices to help it and the conditions under which it will function will unquestionably be more difficult than those which confronted the War Finance Corporation.

The Corporation may serve the immediate purpose, however, of somewhat loosening the credit jam and of thus bolstering public confidence. Hence, its initial effect upon the stock market could only be favorable.

Another development of possible early importance to the market is the impending reduction in railroad wages. It should have come long ago, for the full weight of economic logic is on the side of the railroads. That it is now on the way seems apparent. The only question is whether it will result from voluntary agreement or not,

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Etching by I. Dowshow

What's Ahead for Business In 1932?

First Quarter Should Reveal Whether Depression Trend Has Been Broken, to Be Followed by Gradual and Moderate Gains

By Ronald P. Hartwell

WE have buried, even though we will not soon forget, one of the blackest years in the history of American business. Everyone is all too painfully aware that we have come down a long, long way. The question as we hopefully enter this new year is: Are we at last on bottom? If so, where do we go from here?

As to bottom in the volume of business activity, it is an unfortunate trait of human nature to accept with easy credulity such optimistic forecasts as are made in the early stages of depression, when readjustment has barely started, and to be overly sceptical of any word of cheer as the economic depths are being plumbed.

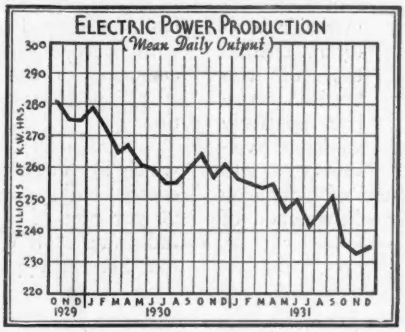
Yet it is obvious on the record that after approximately two and one-half years of business retrogression the danger of premature optimism has been vastly lessened. We know after all that there is a bottom. The exact, scientific placing of it admittedly is beyond the resources of present-day economists, yet ordinary common sense assures us that it cannot now be materially further down if the minimum and essential requirements of human subsistence are to be met.

If there is any ultimate point of reference in business activity this is it. Precedent, as has been clearly demonstrated, is a decidedly fallible guide. The major depressions of the past almost invariably carried business activity down to a point approximately 20 per cent below theoretical normal. This fact led many to assume more than a year ago that we were virtually on bottom, but the close of 1931 found most expert estimates agreed that activity had fallen fully 35 per cent below "normal."

Beyond the obvious fact that we have moved nearer the subsistence level, with so basic an industry as steel operating at scarcely more than 25 per cent of its capacity, the statistical evidence available to one seeking a definite conclusion is still regrettably meager. Nevertheless it is not without some hopeful aspects of a positive nature. The most basic of these is the demonstrable fact that the pace of decline in business activity has slackened. Judged by almost any of the accepted composite indexes, the net recession during 1931 was only half of that of 1930. Similarly, during 1931 the speed of decline in average

commodity prices was cut in half compared with 1930.

Accordingly, despite such secondary readjustments as may remain to be competed, the most basic factors offer tangible support to the assumption that we either have reached or are close to a point of stabilization. Despite a widespread public pessimism, this point of view probably is acceptable to the average person.



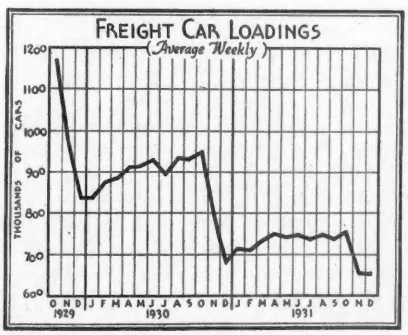
What he is most concerned about is the prospect for recovery, either in coming weeks or later. As to this prospect there are, generally speaking, two schools of thought. One, conceding that the boom of 1928 and 1929 was a phenomenon not to be repeated in many years, if ever, conceives of business normality in terms of the economic conditions prevailing in the good years from 1922 through 1926. It sees recovery as a return to those conditions — a recovery generally comparable in speed and scope to those which followed other depressions of the past.

The other point of view holds that even the prosperity which followed 1921 rested largely upon a platform of post-war inflation and that in the all-important relationship between business and the commodity price level we have fallen not from a normal but from an abnormal level. In short, that present standards of valuation generally are nearer the long-trend "normal" than were those of the post-war decade.

This theory naturally implies that recovery can not be expected to come from a simple and automatic return to higher valuations. On the contrary, it sees recovery as the result of a thorough readjustment of business operations to basic conditions not much different from those of today. It regards reasonable prosperity as depending less upon a change in conditions than upon a change in our methods and standards of meeting those conditions.

The logic of this conception, which looks to a recovery somewhat more protracted and painful than that which occurred after 1921, is difficult to escape.

To say that this depression in its world-wide extent is different from any of the past is misleading. The difference is not really in character, but in degree. The inevitable effect of every important war, as history plainly shows, is to cause a disruption of the existing economic structure and a widespread inflation. The invariable aftermath, automatically dictated by economic laws, is deflation.



The World War was of far vaster scope than any previous conflict. The resulting economic disruption, the destruction of savings and piling up of debts were on a scale never before even remotely approached. The inflation of values, particularly in the post-war boom in stocks, went far beyond any former extremes.

Hence, the world is now merely reaping a harvest of its own sowing. To regard so simple a sequence of cause and effect as signifying a mysterious New Era, an endless depression or a possible collapse of the economic structure would be ridiculous. Whatever the immediate difficulties, the one certainty is that the inhabitants of this globe will continue to live, to produce and to exchange.

There is no evidence that we possess the ability to effect any short cut to revival. We try nostrums and palliatives and mentally fight deflation to the bitter end, our insistence upon maintaining former standards merely delaying the basic processes of adjustment. These are overwhelmingly automatic. Price—intimately bound up with profit—is the great regulator of supply and demand.

There is no possible basis of reasoned estimate as to the length of time that will be required to complete the greatest economic readjustment in history. Conceivably, business, as it did after 1873, might take five years to get back to an approximation of normal, but this does not mean that matters will get progressively worse. On the contrary, it appears quite likely that 1931, second year of deflation, will prove to have been the year of greatest strain, to be followed by moderate and gradual improvement as business adjusts itself more efficiently to new conditions. The conjecture that complete recovery may be disappointingly slow is set forth merely as a possibility. It is equally possible that the necessary readjustment will be worked out faster than we can now imagine, in which event a good start toward recovery may have been made by next autumn, to be followed by progressive improvement during 1933.

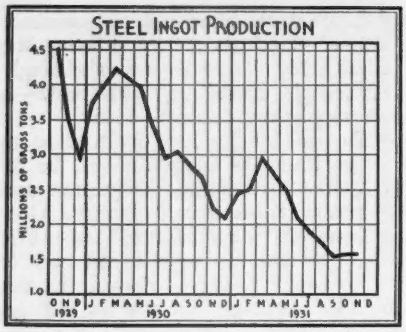
In either event the first significant evidence bearing upon a possible turn in the business trend will be supplied by the developments of the next few months. After all, conjecture as to the ultimate scope and timing of full recovery is futile. What we wish to see is the beginning of improvement, however faint. If only the *trend* becomes favorable, the psychological aspect of the depression, which is undoubtedly one of the most repressive of present factors, will vanish.

Next Few Months Critical

Accordingly, we look now to the first quarter potentialities, with logical expectation that by the end of March we will know whether the basic downward trend has been interrupted or reversed. From the abnormally low level of business activity at the close of last year some seasonal advance is certain. Any change for the better in the recent psychology of public despair could greatly expand such gains. On the other hand, they would unquestionably be restrained by "bad news," such as acute crisis in Central Europe.

The strongest basis for hope is offered by the fact that American business already has made tremendous progress in adjusting itself to conditions of adversity. In most industries costs have been lowered to an extent that would have been thought impossible two years ago, and operating efficiency has been increased. It is this wholesale adjustment which should ultimately make possible a return to satisfactory profit levels, without a return to boom prices.

If this prospect appears doubtful, let us remember that American prosperity did not begin with the war or with war prices. Given thorough readjustment to lower prices and lower costs, satisfactory expansion of profits will



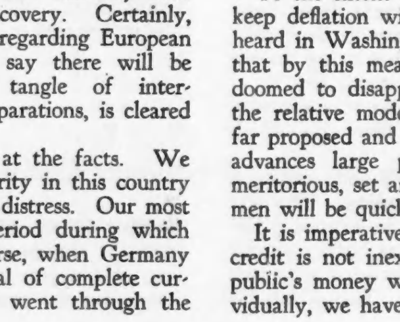
require only normal restoration of volume activity. Moreover, the record of American business shows a remarkable ability in a situation of this kind to translate relatively moderate volume gains into surprisingly large profit gains as the lessons of depression are applied. This was the most notable phenomenon of recovery in 1922.

Up from the Low

If aggregate corporate profits of 1932 are to match or slightly exceed those of 1931, the achievement probably will rest mainly upon this factor of increased operating efficiency. We can not expect that it will be made easy by fast volume gains or by important price improvement. So far as volume of business activity is concerned, it is necessary to point out that the level of early 1931 now looks relatively high. We are now at a level well below the average of 1931. In short, approximately a 10 per cent gain in volume would have to be achieved by the close of this year to match the 1931 business volume.

It is regrettable that the American public appears to have accepted the loose dictum that recovery here must depend largely upon world recovery. Certainly, revival is being delayed by our fears regarding European difficulties. Some economists boldly say there will be no improvement here until the tangle of international debts, particularly German reparations, is cleared up.

Let us look a bit more realistically at the facts. We have had periods of substantial prosperity in this country while other important nations suffered distress. Our most recent era of prosperity covered a period during which British business went from bad to worse, when Germany subjected herself to the frightful ordeal of complete currency depreciation and when France went through the agony of drastic currency revaluation. As late as 1924 leading economists painted a picture of black despair for Europe.



Yet their dire forebodings proved unjustified. Now again we hear warnings of impending collapse, as if Europe at any moment could be expected to explode and drop into the ocean. Is it not possible that our fear has been carried to an extreme not justified by even the worst that can happen in Europe?

We are not vitally dependent upon foreign trade. We are more nearly self-contained than any other nation. Let us grant that 10 per cent of our business volume rests upon foreign trade, which is doubtful. It is doubtful because the estimate refers merely to the movable product of our industries. A very large proportion of our value product, such as building, services, etc., is not movable. Thus, in relation to our aggregate economic endeavor, exports play a truly minor part in our national economy.

But even if the ratio is 10 per cent, the loss of foreign trade could not possibly account for a decline of 35 per cent in our business volume. It has been estimated that the net profits of our foreign commerce even in good years do not amount to more than 2 or 3 per cent of our national income of 90 billion dollars a year. Moreover, the loss is far from complete. Foreign trade has not stopped and will not stop. Without any trade with Europe—and there will always be a substantial amount—our natural markets in Canada and in Central and South America offer wide possibilities of cultivation.

It is difficult to escape the conclusion that the obstacle which European troubles appear to impose in our path is constructed approximately 10 per cent of hard facts and 90 per cent of over-drawn fear. That fear can not last indefinitely. It will wear itself out when we wake up to our domestic opportunities.

Government Cost Must Deflate

We are not lacking, of course, in domestic problems. One of the largest of these, creeping stealthily over an unawakened populace, is the general tardiness of public officials to realize the full seriousness of our present situation and to readjust governmental expenditures to it. Politicians are occupying themselves with imposing schemes designed to remedy this or that aspect of depression, each remedy involving vast sums of money which could only be raised by bond issues at excessive interest rates.

To the extent that the purpose is to soften deflation or keep deflation within bounds, some of the proposals now heard in Washington possess merit. Any hope, however, that by this means we can restore inflated valuations is doomed to disappointment at great cost. Unfortunately, the relative moderation of the budgetary economies thus far proposed and the avidity with which President Hoover advances large projects of governmental aid, however meritorious, set an example which free-spending Congressmen will be quick to follow.

It is imperative that politicians learn that governmental credit is not inexhaustible and that free spending of the public's money will do far more harm than good. Individually, we have soberly made our adjustments to a new condition and are living within our incomes. Collectively, through the Federal, state and municipal governments, we continue to spend like drunken sailors. The farce can not go on without irreparable mischief being done. Budgets must be cut to the bone. Salaries of public servants must be cut in proportion to the decline in living costs.

Any doubt that this problem of excessive governmental spending is a vital one will be dissolved if one notes the persistent weakness of United States Government bonds and observes the fact that on a recent bond issue the City of New York was forced to pay an interest rate of $5\frac{1}{4}$ per cent. This is notice that government credit, even the best, is already called under investment question.

Aside from what politicians will do to the public finances, business is not greatly concerned with 1932 political events. It has learned through long experience that

prosperity and depression are governed by economic developments without regard for whether Democrat or Republican occupies the White House.

Adjustments in the Making

Much more to the point is the distressing plight of the American farmer, whose condition must improve before there can be any balanced and distributed prosperity in this country. In this picture there is a moderate amount of reassurance in the fact that farm prices not only have gone back to pre-war normal but substantially below it. The price level no doubt is below the average cost of production, an economic anomaly which inevitably corrects itself. Disregarding the unpredictable whims of the weather, normal expectation would be that prevailing low prices will restrict this year's production and favorably influence prices, particularly as surpluses are gradually worked off.

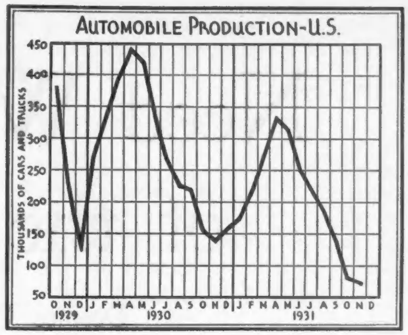
Wheat and cotton offer tentative evidence of having passed bottom and may very well experience at least moderate improvement in coming months. Moreover, farm buying power probably will be expanded by some further decline in costs of the goods and services for which the farmer pays. It is also likely that a substantial total of mortgage indebtedness will be re-scaled.

In wage adjustment we are far along the road of progress, the conspicuous laggards, in addition to governmental employees, being railroad workers. A cut of 10 to 15 per cent here is inevitable, whether by voluntary agreement or by the established legal process of arbitration. Such a wage saving, together with the proceeds of pooled higher freight rates, will definitely restore a safe margin of coverage of fixed charges and hence will save railroad credit from disaster. Nothing would do more to bolster the bond market which, at this writing, already gives some evidence of a return to investment reason.

Tentative improvement also is evident in our general financial situation. There was the expected increase in bank insolvencies in the closing weeks of the old year, but the movement was far under the distressing proportions of that of last October and evidently had far less effect upon public sentiment, which apparently is showing some increase in stoicism, if not in positive confidence. The hoarding of currency has been checked and could easily result in a return flow of funds to the banks as soon as modest business gains give reason to believe a turn has been made.

Our frozen real estate situation, of course, remains with us and can not be rapidly corrected. Correction, generally speaking, can hardly take the form of a restoration of former values. This can only mean that a substantial aggregate mortgage loss must ultimately be taken in readjusting obligations to a new value level. While the prospect certainly is not favorable to business, orderly readjustment here should not block the road to gradual improvement. In commodity prices, common denominator of depression, it can be said with assurance that the worst has been seen, even though some further moderate decline is possible. The pace of decline in 1931 was only half that of 1930. Accordingly, the inventory problem facing business this year is likely to be somewhat less difficult.

> ***"While in all probability 1932 will represent a year of business improvement, there is little to sustain the view at present that its gains will be sensational. Rather, we must content ourselves with a slow but salutary uptrend from the economic depths."***



Finally, too much emphasis can not be placed on the obvious fact that intangible and psychological factors are the most baffling obstacles to business analysis and forecast. The majority of our people undoubtedly are spending less than it would be reasonably possible to spend on present income. Vague fears of the future—probably unfounded—incline them to extreme caution. A conjecture that a decline of 20 per cent in business activity was justified by the economic facts and that the additional 15 per cent decline is largely psychological would not appear improbable. Accordingly, we may not be entirely dependent upon tangible factors for a gratifying degree of improvement.

With regard to the leading industries, the prospect for steel in 1932 is a year of unsatisfactory profits, if profits can be had at all. The industry is characteristically slow in recovery and has added a burden of increased capital investment through heavy plant expansions. Formerly it was thought that the industry had to operate at a rate of at least 60 per cent of capacity to attain satisfactory earning power. It is conceivable that this can now be done on a 50 per cent rate, because of increased efficiency, but an advance to an average of 50 per cent for 1932 would represent a larger gain over 1931 than can reasonably be expected.

The outlook for construction appears to be clouded by the fact that we undoubtedly have an over-built situation in industrial plants and in office buildings, as well as by the difficulties of real estate financing. It is pertinent to note that the trend of residential construction passed its peak in 1925. It is doubtful, however, whether a previous shortage has been made up or whether recession in building during the last two years has tended to create new shortages to be later filled in many sections. It appears likely that construction will improve moderately and gradually as a result of general business gains, but it is unlikely that of itself it will impart any sudden or spectacular lifting impulse to general business. The sustained stimulus of a moderately increasing construction schedule is far more likely and desirable.

While steel and the railroads, in particular, look to the automobile industry for help, this industry appears as dependent as virtually any other upon the question of a general business revival. It can hardly have a revival of its own origination, despite its present strenuous efforts to attract demand by means of greater values. A potential replacement demand of abnormal size undoubtedly has been built up but its translation into actual sales is less a matter of human desire than of purchasing power, which will be restored only by general business recovery. For at least one or two years, however, the motor industry's participation in the ultimate re-

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Need We Fear the Passing of the Gold Standard?

Despite Our Half of the World's Gold We Are Urged to Join the Paper Money Procession

By THEODORE M. KNAPPEN

IT is conceivable that in a universal panic every bank in the United States would have to close its doors. That is to say that no bank that continues to function as such can possibly have *cash* equal to deposits. If all bank depositors should demand their money, there being 52 billions of deposits and only some 9 billions of money in and out of banks, in strong boxes, in stockings and secret caches, the banks would have to quit. Something like this did happen in the panic of 1837, when every bank in the United States outside of New England suspended.

Similarly, it is conceivable that any nation in the world could be driven off the gold standard. The maintenance of the gold standard implies that all money must be kept at parity with gold, which can only be done by making it redeemable in gold, however hedged about the process may be. Whenever any nation is drained of its gold to such a point that it cannot settle its international balances in gold or cannot meet domestic redemption demands it is automatically off the gold standard.

Generally when a nation sees that it is being perilously drained of its monetary gold it elects to suspend the gold standard, for the primary purpose of keeping what gold it has left in the vaults. It may go only part way—and forbid the private exportation of gold—but it is nevertheless off the gold standard and its currency, as measured in gold, depreciates.

Could We Be Pushed Off Gold?

Owing to the strong creditor position of the United States and its mountain of gold it is hardly conceivable that any demand for the exportation of gold could ever of itself throw this country off the gold standard. Bankers consider that in the months of September and October this country went through the greatest international "run on the bank" for gold that it will ever have to stand. In six weeks it then lost 725 million dollars of gold—which is more monetary gold than the total holdings of any other nation except France. Since then the tide has been setting the other way.

It is however conceivable that a domestic hoarding mania, with or without an outrushing flood, would make it impossible to supply the demand for gold. If only a small part of the nation's millions of bank depositors and hoarders of currency were to attempt to turn their money into gold it is obvious that the 4,500 million dollars of gold held by the banking system and the treasury would soon be exhausted. Long before the point of exhaustion would be reduced Congress would undoubtedly act to suspend gold redemption and leave the dollar to its fate.

By way of reassurance, it may be said that it is apparent that very little of the hoarding now going on in this country is in the form of gold. The public may not have confidence in all the banks, but its confidence in Uncle Sam and the ability of the United States to keep its currency at par with gold has not been noticeably disturbed. Unless, therefore, there should be an incredible panic demand for gold—a complete rout of common sense, society become a mob—there seems to be no chance, even of the remotest sort of the United States being forced off the gold standard.

Going off the gold standard is not the end of time and the crack of doom for any nation. Our own United States staggered through seventeen years of goldless standard money, from 1861 to 1878, and during the Civil war the dollar dropped as low as thirty cents in gold. Everybody ate three square meals a day, we fought the greatest war of the Nineteenth century after the Napoleonic wars, and the country expanded, piled up wealth and prospered mightily during the major part of that period.

From the beginning of the World War on pretty much the whole world was off the gold standard except Uncle Sam, and he did a bit of trimming to his previous conception of what was a hundred per cent pure practice of the gold faith. Even England did not return to the gold standard undefiled until 1925, and France not until 1928. It will be recalled that there were some quite bearable years between 1914 and 1928.

Should We Demonetize Gold?

With 26 nations off the gold standard the question is being widely discussed as to whether it would be good policy for the United States voluntarily to suspend it. It is suggested that the depreciation of the currencies of all the important nations in the world, except the United States, Italy, Belgium, Holland, France and Germany, gives them certain trade advantages over this country, which can be met only by our following suit. Mere mention of the topics is considered by banking pundits as a sure symptom of insanity—but, then, these are insane times.

Let us consider how depreciation of a nation's currency affects its commerce, both internal and external. Take the case of England. As yet, so far as we are informed, there has been little if any increase in domestic prices. The purchasing power of a pound has not changed in domestic trade. The average Englishman has not been affected in his daily life by the suspension of the gold standard. So long as he spends his money for home-made goods he is

about where he was before. Before England went off the gold standard he doubtless felt an apprehension that something cataclysmal would happen when the dread event occurred. But nothing did, except vast national shame and great relief from fear.

The government is taking measures to prevent the exploitation of prices, but how it can prevent a gradual increase in the prices of goods that are wholly or partly of foreign origin is not evident.

Assuming that the pound is worth abroad one-third less than it was it is evident that imported goods will require one-third more pounds for their purchase from countries whose currency is not depreciated with respect to gold. But as the raw material countries are mostly off the gold standard in part or in whole this does not mean as much as might be thought at first glance.

Protection As An Incident

It does operate to increase the prices of all goods from the countries that are still on the gold standard. It constitutes a form of protection for British producers against imports from gold nations. In the end, it would seem, that prices in England must inevitably rise wherever this incidental protection applies. When the importer is compelled to mark up his goods from gold countries it is hardly human nature for the home manufacturer not to mark up his. It takes a long time to change wage rates, however, in proportion to the rise in prices. This means that wages are relatively deflated. Which means a wider competitive margin for the manufacturers. Orders flow to Manchester, rusty ships put to sea. Eventually, however wages will rise and the British manufacturer will lose the advantage he may have had in exporting to countries whose currencies have not depreciated at all or not so much as England's.

A rising price level will call for more paper money, which will mean that its units will be further depreciated in gold. Prices will rise again and more money will be required, and it will be still cheaper money. The result will be a disturbed home market, with continual upward changes in prices and wages—perhaps a boom. As for export trade, under such conditions, it will be a continuous round of calculating what prices shall be quoted in currencies that will be changing from day to day in respect to the pound.

The Saver Loses

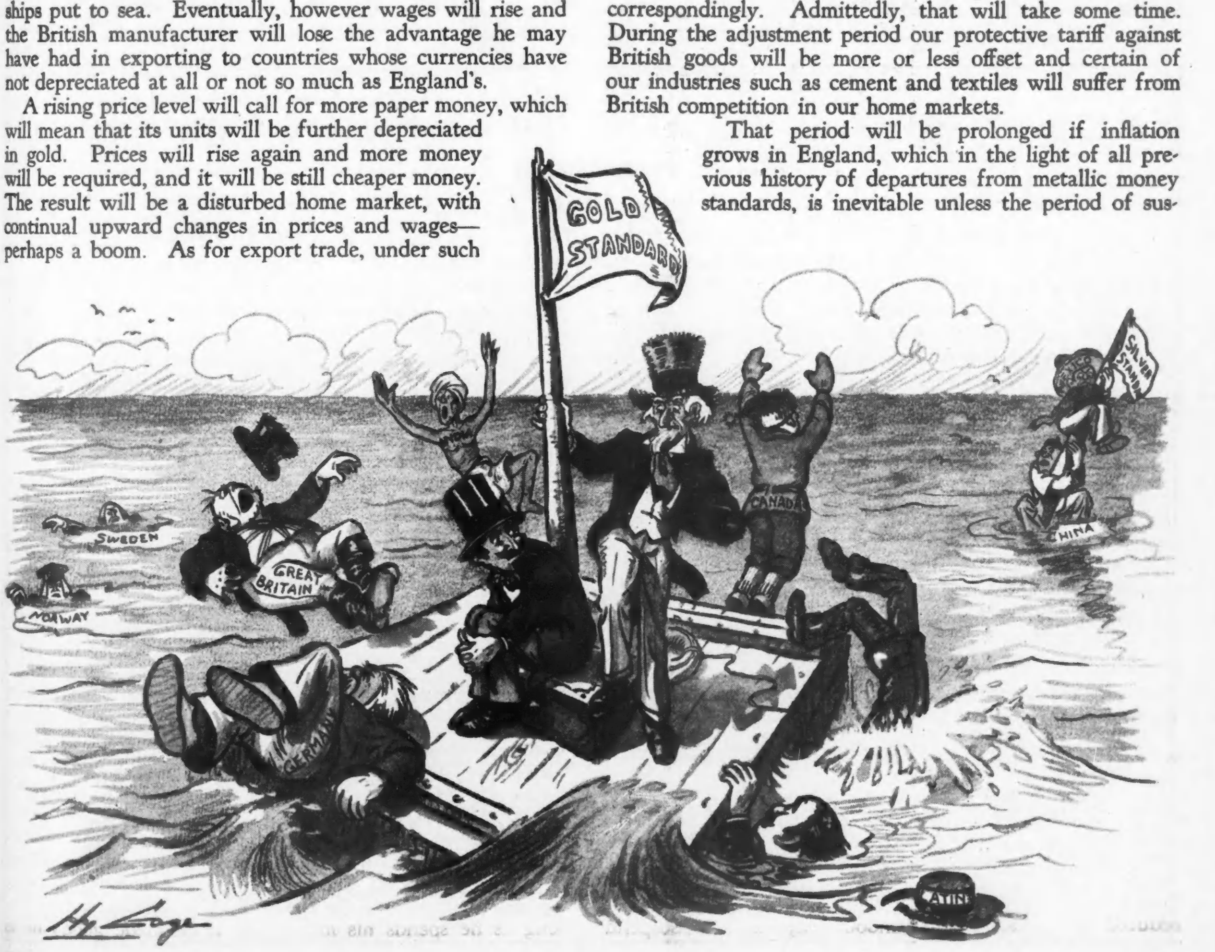
As prices rise, all investors in fixed-return securities are bound to suffer. Wage earners will always be a lap behind in relative purchasing power. Manufacturers and merchants will benefit. Finally, however, unless some way can be found to avoid inflation of a national currency that is not related to gold, destructive progressive inflation will result until the country returns to the gold standard.

But unless the standard is fixed at the same parity as before all owners of intangibles will suffer. Suppose England eventually returns to the gold standard with a pound containing only three fourths as much gold as before. All sterling bonds will depreciate 25 per cent, and all interest on them, too.

The national debt, for instance, will in effect be reduced 25 per cent, which is equivalent to taxing its unhappy owners that much on their capital and income. It is virtual expropriation. France did the same thing on an 80 per cent scale. Tough on creditors, but heaven for debtors is cheapened money. Consider English investors' 20 billion dollars abroad!

Now let us consider the effect of the depreciated pound on the gold dollar and the United States. As it requires fewer dollars now than formerly to buy a given number of pounds imports from England are cheaper in United States dollars, and will be, so long as British prices do not advance correspondingly. Admittedly, that will take some time. During the adjustment period our protective tariff against British goods will be more or less offset and certain of our industries such as cement and textiles will suffer from British competition in our home markets.

That period will be prolonged if inflation grows in England, which in the light of all previous history of departures from metallic money standards, is inevitable unless the period of sus-



pension is very brief. It will be recalled that when the German mark and, later, the French franc were subject to extreme inflation the producers of those countries enjoyed great prosperity. Wages were always below the advancing price trend and domestic raw materials prices always lagged behind finished goods. The grip of the domestic producer on the home market was strengthened and the falling values of his products, as measured in the currency of his country when converted into gold, gave him the equivalent of an export bounty.

Our Export Handicap

But while the United States is already beginning to feel the effects of cheaper British goods as, indeed, is the world in general, it is manifest that the cheapening of the British pound is resulting in export handicaps.

While our Tariff Commission has already reported that it is impossible to determine British costs of production under present conditions, with the result that it has been unable to make recommendations for increases of tariffs to offset British prices, Canada unhampered by our cumbrous machinery, solves the problem by a simple order in council which converts prices of British imports for tariff purposes into Canadian money at prevailing rates of exchange.

Right here we have a cynical commentary on the warmth of international affection. Here is poor old England resorting to everything, even the blighting shame of giving up the gold standard which she mothered a hundred years ago, to improve her international exchange position. And here is her daughter, Canada, promptly shutting the door on the "old lady's" aspirations. And while we are on this subject of cutting export prices by cutting money standards, please note how promptly France meets the English threat, indeed the threat of all cheap money countries. As fast as their money goes down France imposes a tariff surtax on them "to each according to his needs."

How We Might Benefit

Without citing further illustrations of how cheaper money gives the cheap money nation an advantage in trade over the gold standard nations—until wages, and prices rise accordingly in the former—let us now consider what the United States might gain by joining the tatterdemalion band of countries with debased money. Provided the dollar fell as much as the English and other currencies, we would be on an exchange par with them; and in trade relations with such countries, just where we were before the flight from gold set in. That would be both an export and import improvement, from our point of view, over the present situation; the full protective effect of our tariffs would be restored.

But it is by no means certain that the dollar would fall as far, say, as the English pound. The world would probably esteem an unsupported paper dollar more highly than the same sort of pound. The chances are, therefore that even in foreign trade we would gain but little, and that temporarily. Our exports would theoretically, at least, be stimulated according to the amount of the relative decline of the dollar; but actually very little. On the other hand, the prices of imported goods would rise. This would in some degree tend to restore the efficacy of our tariffs; imported goods would rise in price. But as about half of our imports are on the free list because we esteem it to our advantage to have them there we would penalize ourselves

(*Please turn to page* 366)

What Would Happen to This Good Money If the U. S. Suspended Gold?

More Than Half of United States Money Is Solid Gold. It Can Stand Anything But What About the Other Half If the Gold Standard Is Sacked?

KINDS AND DISTRIBUTION OF U. S. MONEY
(In millions—last 6 figures omitted)

Kind of money	Total amount	Money Held in Treasury	Money outside of the Treasury				Population of continental United States (estimated)
				Held by Federal reserve banks and agents	In circulation		
		Total	Total		Amount	Per capita (actual)	
Gold coin and bullion	$4,955	$3,696	$1,259	$896	$363	$2.93	....
Gold certificates	1,701	......	1,701	705	996	8.03	....
Standard silver dollars	539	498	41	7	34	.28	....
Silver certificates	493	......	493	116	377	3.04	....
Treasury notes of 1890	1	......	1	......	1	.01	....
Subsidiary silver	308	5	302	29	273	2.20	....
Minor coin	126	4	122	4	117	.95	....
United States notes	346	3	343	43	299	2.41	....
Federal reserve notes	2,101	1	2,100	391	1,708	13.77	....
Federal reserve bank notes	2	.04	2	.002	2	.02	....
National bank notes	697	17	679	30	648	5.22	....
Total June 30, 1931	*$9,079	$4,227	$7,047	$2,226	$4,821	$38.56	124
Comparative totals:							
May 31, 1931	8,782	4,190	6,775	2,073	4,702	37.92	124
June 30, 1930	8,306	4,021	6,263	1,741	4,521	36.71	123
October 31, 1920	8,479	2,436	6,761	1,063	5,698	53.21	107
March 31, 191"	5,396	2,952	5,126	953	4,172	40.23	103
June 30, 1914	3,797	1,845	3,459	......	3,459	34.93	99
January 1, 1879	1,007	212	816	......	816	16.92	48

* Gold certificates not included in total, because they are simply gold receipts for amounts included in the first item.

Charles Benedict Says—

It's the Man—Not the Party

WE enter the open season for politics. In an economic emergency that cries out for unselfish leadership as clamorously as would a war of national defense, politicians already cavort through the petty skirmishes of 1932 partisanship. Soon press, platform and radio will pour upon us the usual avalanche of buncombe as to the respective merits and demerits of the Republican and Democratic parties.

Again we are to listen to glittering generalities and a meticulous splitting of hairs as to the cherished traditions and sacred principles of the two parties which have actually long since ceased to differ upon any really important issues. It will be quite tragic if a docile and misinformed public again permits the hacks in charge of party administration to run off the age-old farce.

The fact is that it will make no difference which party has the task of guiding us out of depression. The vital question is: What *man* will lead the party in power? If he possesses common sense, rugged integrity, practical political wisdom, energy and a personal courage justifying confident respect from friends and foes alike, it is of no consequence what party emblem his banner bears.

It is not a party leader we need, but a national leader. Unfortunately, all too few of our presidents have measured up to this standard. With Washington, Jefferson, Lincoln and Theodore Roosevelt,—they can be counted on the fingers of one hand. Some have achieved a temporary accolade of greatness merely by supinely riding out a favorable tide of circumstances. Others have unluckily had to face the test of emergencies which inexorably revealed failings of character, ability or experience. This has been true in the case of Herbert Hoover as well as Woodrow Wilson.

The World War was Woodrow Wilson's test. Even now it is difficult to appraise him, for great events to some extent magnify the stature of such actors as were then upon the political stage. But that his chief failing was an intensely stubborn insistence upon his own point of view seems now clear. It ill-fitted him for the necessities of practical political administration. Yet it is one of the ironies of history that in relaxing this quality in his one supreme test, Wilson failed.

Much that we suffer today traces back to the abominable Treaty of Versailles. The writing of a just and enduring peace lay in Wilson's hand more than in any other. He was backed by the bright light of a world idealism which for a brief interval flamed high—but Wilson faltered. His dominant will failed him. Nationalistic hates had their way. He did not sign a treaty that he believed in. He accepted a compromise, which has since led us into a series of one form of difficulty after another.

Yet today, unless there is rapid improvement in economic conditions, a disappointed and vaguely resentful populace are preparing to dismiss Herbert Hoover and the Republican Party next autumn and transfer at least temporary allegiance to the Democrats. Our history is an endless series of such shifts of sentiment. To what purpose? Only the unthinking are misled by the fatuous claim that either party possesses a patent on prosperity. Under the administration of each, we have from time to time had prosperity. Under the administration of each, we have from time to time had appalling depression and unemployment.

The records show that our economic ups and downs are to an overwhelming extent dictated by economic laws. They show also that economic emergency has almost invariably found our political leaders, either Republican or Democratic, pitifully ineffective.

Of what use, then, to complain that the Republican Party has failed, or to assume that by some magic alchemy the Democratic Party will suddenly exercise an economic wisdom never before displayed in repeated trials?

It is true that the pitiless spotlight of a national emergency has embarrassed the present party in power by the collapse of the Hoover myth—the superman myth that was put over by years of effective publicity.

But while a personal myth has been shattered, it would be absurd to carry its significance any further or to mark it up solemnly on the record as a score against the Republican Party, the most prominent leaders of which did not want Mr. Hoover but bowed to the strength of his personal campaign, which had begun as early as 1920. It was not until 1920 that Mr. Hoover was sufficiently interested in politics to announce himself as Democrat or Republican.

His faults are not so much those of omission or commission, but of method. He has not displayed that quality of personal leadership which is necessary to command confidence. Hesitancy and vacillation has marked his policies. He follows no clear program, evades issues as long as possible and then meets them with hastily devised expedients. He proves even more inept in the arts of practical politics than was Wilson. He shows that successful command, as exhibited in his business career, in food administration and in European relief work, is not adequate preparation for an office in which dictatorship is denied and confidence-inspiring leadership is essential.

Today the country is urgently in need of a leader who like Theodore Roosevelt will inspire and strengthen the moral fiber of the nation at the same time that he works with the foremost minds, regardless of their political faith, toward economic recovery and stabilization. The recuperating period which faces the country demands a man of high

(Please turn to page 374)

¶ Excessive Expenditures on the Part of Local, State and Federal Governments Must Be Checked.

¶ Business Cannot Recover Unless the Burden of Corporate Personal Taxation Is Relieved.

Now Deflate Taxes!

Reduce Public Expenditures, Tax Sparingly!

By John C. Cresswill

THIRTEEN billions of dollars!

That is what government costs the people of the United States annually.

What is thirteen billions?

It is two-thirds of all the wealth of the wealthiest municipal area in the world, that of the city of New York.

It is one-third of the wealth of New York State, half that of Pennsylvania, equal to that of Massachusetts or New Jersey, almost as much as that of California.

It is not far from half the money value of all Canada.

It is more than the entire income of the 25 million people who live on the farms of the United States. It is twice the value of the livestock on all the 6,300,000 farms.

Per capita this governmental expenditure is more than $100 a year—or one-seventh of the income of each person. The increase of this burden was 200 per cent in sixteen years, even on the basis of 1913 dollar values.

Taxes are an appalling factor in economic demoralization and social breakdown in some regions and groups. Take the farmers for painful example: Taxes up 270 per cent with income down 30 per cent. Witness the crushing rentals in cities where despite real estate bankruptcies taxes keep up impossible rents.

The expenditure of those 13 billion dollars represents, probably, the greatest waste of funds in the world. A vast federal horde of spending officials, a mob of spenders in each of the 48 states and an uncounted swarm of spenders in innumerable counties, cities, states, townships, villages, districts, special spending territorial units (made up mostly of persons who are neither capable producers nor competent administrators of property) pour out this wealth of the people. Like clouds of locusts they descend annually upon the harvests of the docile masses and appropriate their wealth.

Spending furiously, our tax masters drove blindly into the present depression, and the land is covered with the wrecks of their folly and incompetence. Cities great and small, counties and villages—every sort of municipal unit—is in fiscal distress. Broke or dead-broke haggard communities all over the land now face the need of extraordinary expenditures to carry some 20 million people through these workless days. States and local political units are called upon to spend hundreds of millions in direct relief and billions in indirect relief through public works.

Slow Death by Taxation

Government	Expenditures Now			Expenditures Then		
Federal Government	$5,000	million	(1932)	$700	million	(1913)
States	1,800	"	(1928)*	400	"	"
Local Governments	6,800	"	(1928)*	1,850	"	"
Totals	$13,600	"		$2,950	"	
Tax increase in 15 years				$10,650 million		
" per cent increase in 15 years				361%		
Per cent increase in National Income in same period........				54%		

* Latest available figures.

Hitherto the Federal government has been the best behaved of all the wild army of tax collectors and disbursers. Considering that it was paying for its share of the greatest war in history both in the way of debt service and a billion a year for the veterans the Federal government did remarkably well to keep its expenditures about level for the nine years following the war peak. It is true that federal expenditures quintupled between 1913 and 1928, but Congress can not be charged with the direct and indirect expenditures caused by a war which multiplied the national debt 24 times, and left a billion dollar legacy of annual veteran relief. But in 1930 and 1931 the Federal expenditures began to mount rapidly while national income was declining even more rapidly.

Turning from their own wreckage to the still solid national fiscal fabric the lesser political units are organizing for a mass raid on the national treasury. While the President has slashed the 1932-33 budget by about 300 million dollars and Congress is contemplating another reduction of 300 million, there is reason for grave apprehension that extra-budget appropriations may mount by several billions. Both parties in Congress are intent upon economy in running expense, for that is popular; but both may be compelled to yield to the almost universal cry from local officials and distressed millions of people—payers of taxes and recipients of them—for loans, donations and

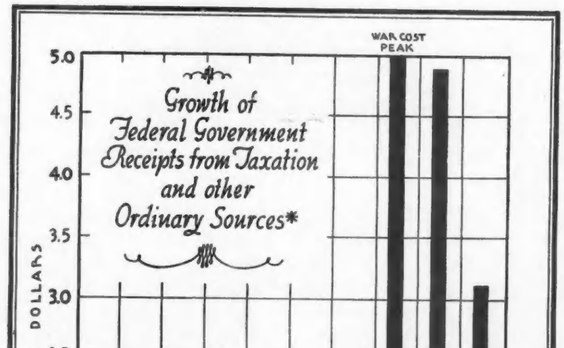
printing press money from Uncle Sam, he of reputed inexhaustible wealth and unfailing good will.

Between 1923 and 1928 the gross governmental expenditures of the American people increased approximately 2,500 billion dollars. Of this amount the state governments took about 600 million dollars and the local governments 1,900 millions. These governments fought no gigantic war with its endless bills. They were not confronted by grave and exacting emergencies. They spent like drunken sailors—and they were drunk with the paper profits of the boom years. Revenue money was easy and they took it greedily. These state and local governments, particularly the latter, are close to the people. Their faults are the faults of the people. There is scarcely a municipality in the United States where the people could not have trimmed this mammoth local mulcting—7,000 millions a year!—if they had paid any attention to one of their most important business affairs. Now, with their pocket books flat, their incomes dwindling, their credit gone, thousands of communities are confronted with increased rates of taxation. Multitudes of former taxpayers have disappeared from the lists. The delinquent tax rolls roll up, tax sales multiply, borrowing is impossible and the decimated taxpayers must pay doubly when the greatest godsend they could have—a boon which they well earned in the fat years—would be some remission of their public obligations.

With local taxes now exceeding the traditional certainty of death, and surpassing its pain, every effort should be concentrated on Congress to keep down Federal expenditures and taxes.

There is an austere theory of martyrdom abroad to the effect that we must submissively do penance by heavy taxation now for the joyous expenditures of other days. Let it be remembered that when times were good, money easy and revenues swollen Federal taxation ran high. The corporation income tax was kept at near war heights, tariffs were high, excise taxes stood up. Whatever the lesser governments did the Federal government paid off its debts in great swathes—nine billions in eleven years. Whatever Mr. Mellon's faults he held us to the thrifty maxim that the best use of money is to pay debts—at the time when the maxim was needed.

What we need now is not more taxes, federally speaking, but less expenditure. Federal functions should be pruned and deleted. This is a grand time to roll back the costly tide of bureaucracy. Let us stop the ominous advance of government into business. Let us stop building canals and highways, financing navigation and subsidizing motor traffic to the destruction of the railways. Let us have done with bounties, through the nefarious 50-50 matching of local expenditures with Federal cash, on the building of needless highways and all the other ways of political co-operation in profligate expenditures. It is time when, instead of rewarding local governments for spending more money, we should devise some Federal way of penalizing them for doing so.



We have a national civil service that is probably freer from graft and more efficient than any other but the stern test of excellence and necessity can reduce and improve it, and there is no question that when tax-payers are going cold to pay them civil servants should gladly accept reduced pay. When governments pay too much for services, materials or finished goods they brew trouble for private business.

If lower price levels are foredoomed whatever holds back points of exceptional prices snarls up readjustment. This is the time to clean the Ship of State of deep layers of barnacles that have accumulated on its hull in slothful times. We ought to stop for good providing housewives with recipes, foreign traders with orders, merchants with rules for conducting their business, free research for industry, ethical codes for business, and government publications for readers who never read. There is a wide field of government activity which is desirable when we can afford it but can be dispensed with in these times. We could well lay off the reduction of the public debt for a number of years. To pour taxes into a sinking fund for old debts when, for lack of revenue, we are compelled to increase taxes and create new debts is a bookkeeping futility and another hairshirt for self-martyrs.

When all this and more has been done there will still be a large federal deficit—around 1,400 million dollars a year. The tax screws must be applied to trembling pocketbooks. The fiscal sadists would turn the reluctant screws till all that sum were squeezed out of already near-dry purses.

These sorry years are but moments in the life of the nation.

The sun will shine relatively soon again.

There is no reason why we should get soaking wet because it is raining now.

To pile up taxes on the weary backs of the fewer and poorer taxpayers of these times is to impede the return of business activity. The current deficits, by means of short-time loans, should be spread over several years, thus lightening the load of those on whom public and private financial burdens now press hard, and giving the exempt a fair opportunity to make up their share later.

In saying this we are fully aware of the imperative necessity of maintaining the national credit. But this country is far from "broke" in a Federal fiscal sense. To borrow a billion or so for two or three years in order to apply the installment plan to taxation is neither threat of insolvency nor invitation to bankruptcy. It is no more censurable than a refunding operation.

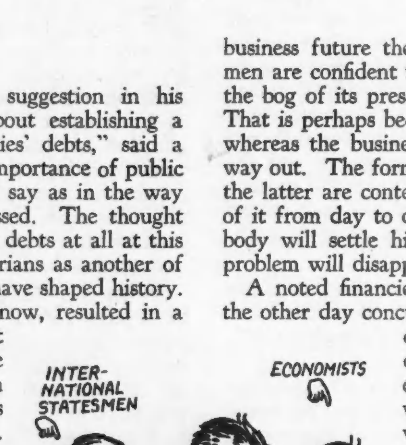
What is to be avoided is a vast issue of bonds for the *(Please turn to page 370)*

"Now Don't Quote Me, But—"

As reported by the "Itinerant Economist"

A President's Slip

"When I read President Hoover's suggestion in his foreign affairs message to Congress about establishing a commission for the revision of the allies' debts," said a great editor sadly, "I reflected that the importance of public statements is not so much in what they say as in the way and the time at which they are expressed. The thought occurred to me that this mentioning the debts at all at this time might later be picked out by historians as another of the incidents, trivial in themselves, that have shaped history. That blunder, as all the world knows now, resulted in a Congressional warning to the President to have nothing more to do with the inter-governmental debts and German reparations. Hoover's purpose was statesmanlike, but the method was awful. The result is that with Europe about to meet in council to discuss the problem which all its statesmen believe to be a great, if not the greatest factor, in the present economic confusion of the world, our government must remain silent and impassive. If we concede that the problem is a tremendously fateful one, we shall witness the spectacle of the nation that has most at stake absent and dumb. All the signs point to the formation of a united European front against us in a common determination to default, if not repudiate, its political debts to us. Congress has in effect served notice on Europe that so far as we are concerned the debts question is settled for all time. Europe is about ready to take a similar stand, only their settlement is to wipe the debts off the slate. Had the President kept still he could at least have sent an observer to the conference, a representative who could have advised, conciliated and warned. Now with no restraining influence from us the nations will meet in absolute conviction that anything that may be done for the relief of Germany from the reparations burden must be passed on to us with or without our consent. . . . A few months later the momentum of events might have entirely changed the attitude of Congress. A few inopportune words, it may yet be written, cost the United States a substantial part if not all of its tremendous national investment in Europe. And once repudiation starts it may engulf our private investments also."



Looking Beyond the Clouds

It is a curious fact that while economists and statesmen think nothing but gloomy and defeatist thoughts about the business future the great majority of thoughtful business men are confident that the world will certainly pull out of the bog of its present troubles within an endurable period That is perhaps because the scholars *can't think* a way out whereas the business men feel that they *must work* their way out. The former want to think the thing through, but the latter are content to dispose of it by nibbling off parts of it from day to day. They have a feeling that if everybody will settle his own affairs as best he can the mass problem will disappear.

A noted financier returned to New York from Europe the other day concurrently with the arrival of a bundle of ominous news cablegrams that was big enough to choke an elephant. Instead of being dismayed he was hopeful of what is ahead in Europe. Some of his views may be summed up as follows:

Germany—Germany will probably stick to the gold standard, she has had all the inflation she wants in this generation. She will probably arrange to meet her private debts and a part of the unconditional reparations payments. The German Fascists will not come into power. Even if they do nominally take over the government it will be found that their policies will not be near so radical as their talk.

Russia—The five-year plan is dragging, but whether it fully succeeds or not it has been a good thing for Russia from a psychological point of view. It has given the Russian people something to take the place of dethroned religion, it has given the revolution concrete objectives, something substantial to work and sacrifice for. Its success would be a stabilizing influence on Russia's relations with the world, and as an instrument of destructive competition it will amount to little.

England, Monetary Standards—It will probably be two years before England restores the gold standard. A managed currency, instead, is possible, but does not promise much improvement over gold unless it should be internationally resolved upon. The situation in regard to a possible return to bimetallism is about the same, but what England wants now is to extract all the present advantages of a depreciated currency and return to gold when those advantages have disappeared. It is quite possible that India will be allowed to return to the silver standard.

France—The French people are thoughtful and farsighted. That national performance does not conform to their character is due to the multiplicity of parties in parliament. What a French government does is not a criterion of what the government would do. France is really pacifist today, but so fears war that she dare not re-

linquish her arms. France insists that Germany must give the preference to reparations over private debts, but will never use force to collect.

International Bankers—American bankers made many mistakes in their loans in Europe, but they were generally made for productive purposes and not for extravagant public improvements, as so commonly charged. What happened was that the borrowing countries spent on public works and armaments funds that they would have used productively if they had not had the loans.

General Outlook—Predictions of a general breakdown of world economy are absurd, and probably made for some ulterior propaganda purpose or other. The present depression will be mastered without anything approaching a catastrophe.

A Jolt for Deflation Theory

One of the greatest manufacturers in the United States writes to me in confidence that he is fed up on the theory that deflation should be allowed to run its wild course to the ruinous end. "It's all very nice to say that deflation is merely a drastic means of adjustment to new price levels," he writes, "and that receiverships and bankruptcy are salutary because they bring capital into normal relations with earnings, but I have had an experience that demonstrates very brusquely that the theory is as wet as a soaked sponge. My chief rival went into a receivership and was finally treated to a banker reorganization bath. The concern has all the plant, property, machinery, equipment and business organization it had before, but everything has been written down about 50 per cent as expressed in the new capitalization. It really was not over-capitalized; it was the victim of poor management, particular and general business stagnation. At the time of its collapse its prices were in line with those of the industry as a whole and they have not been excessive at any time in the last ten years. The new management is going after the business—what little there is—at prices that spell ruin for me unless demand picks up very quickly and substantially. Moreover my company is at present rather under- than over-capitalized, yet I am forced to attempt to meet "receivership competition" and still keep afloat. Sometimes this deflation tendency runs out of line with all reason and threatens to deflate sound concerns out of business.

This is a New One

"Talking about foreign loans," said a financier who is often consulted by Washington, "did it ever occur to you that they were the main factor in the splendid octave of prosperity from 1921 to 1929? They kept Germany going, reparations flowing, political debts liquid, private obligations good, export trade booming, and staved off the collision of over-production with under-consumption. Our internation bankers were mass-mad along with the rest of us and committed some gross errors, but the time will come again when the expansion and maintenance of prosperity will depend on another mountain of foreign loans. What then?"

Keep an Eye on Britain

The English probably muddled into the collapse of the gold standard but evidence accumulates that they have no intention of muddling out. Getting out is going to be a coldly logical and intensely practical process. But a British colonial writing to his son in America expresses the astounding belief that the desertion from gold if not actually framed with deliberation was hailed with secret delight as a powerful weapon of British imperialism. "It was really aimed at the United States," he opines, "so as to prevent the British colonies trading with Uncle Sam. But it can't help her—she is a doomed country. Uncle Sam will dominate the whole world very shortly if he is not already doing so. Your Navy League is right. You should have the greatest navy in the world, as I see in a few years' time a combination of world powers against you. England dislikes the United States and is the trickiest nation of them all. She will not sink without a mighty effort to rise supreme again."

Rebuild Slums—Restore Prosperity

"Somebody said the other day," remarked a man in a high Federal government position who is enough of a business man to have accumulated a secure fortune before he accepted a government job for the love of it, "that no government ever got a country out of a financial depression except by means of a war. I don't know whether that is true or not, but I think it is a fact that in the United States we have always had something definite to "crank" the prosperity engine. We can drag along a long time on a mere existence basis. Prosperity is super-existence commercial activity. It is a mixture of mass enthusiasm, adventure, courage and exuberant energy. In the past we have had gold discoveries, canals, railroad building, highway construction, new frontiers, wars, inventions and resulting new industries that have captivated imagination and spurred ambition along some line. And then has infected the whole body economic. Our lookouts in the crow's nest monotonously report that nothing of the sort is now in sight.

"But we can make a business spur of major proportions. Millions and millions of American citizens are living in hovels and dens. If we were to start on a 20-year program of residence reconstruction at the rate of 200,000 five thousand dollar residential units a year in the squalid districts of our cities we would at once have something to inspire, enthuse and energize the country. The Federal Government would probably have to take the leadership but it need not involve any great financial obligation on its part. It would be a productive investment. We have been exporting something like a thousand millions of capital much of which has been used for housing people in more comfortable and sanitary style in foreign lands. It is foolish to say that we must export capital when the biggest job in the world is waiting to be done here at home, and at the same time give us back that pulsating business activity that is the very essence of American life."

Photos Courtesy International Motor Co.

An Expanding Future for Motor Trucks

Increasing Demand of Shippers and Indications of Broad Adoption of Motor Transport by Railroads Means New Source of Profits for the Industry

By Ralph L. Woods

OUT of the welter of controversy and competition between the railroads and the operators of motor trucks emerges the incontrovertible fact that the ultimate—and inevitable—adjustment of these differences will have a decidedly beneficial effect upon the sales and profits of the manufacturers of motor trucks and buses.

In examining this question both from the standpoint of the intelligent observer of general business conditions and from the viewpoint of the investor interested in the future of the motor truck manufacturer it is desirable to approach the question in a selective frame of mind. That is to say we should put aside as not germane to the problem many of the interesting legal and economic differences existing between these two mediums of transportation. If these highly controversial phases are to be touched upon at all it will be done so only to the extent that their final solution affects the future of the truck manufacturers.

To indicate the future requires that we examine the past. And in examining the past we acquire an understanding of the present. The statistical story of the motor truck is an attractive one thus far. For instance, motor truck production in 1905 was only 450 units valued at $970,000 whereas in 1929—the peak year to date—production grew to 826,817 units valued at $595,504,039. Expressed in percentages this is an increase of 1800 per cent in number of units and about 600 per cent in their value.

The solid foundation upon which rests this division of the automobile industry is suggested by the fact that in 1930 passenger car production dropped 39.3 per cent while truck production dropped 27.5 per cent below the previous year. That this lack of a parallel up and down trend between passenger car and motor truck production is not unusual is evident from a study of the figures showing the annual percentage increase in production of passenger cars and trucks since 1905. These figures reveal such a surprising lack of uniformity in the rise and fall of production from year to year as to leave no doubt that the truck division of the automotive industry is affected by and dependent upon circumstances and conditions quite different from those which influence the passenger car branch of the in-

dustry. Even in high general prosperity or severe depression the extent of injury or benefit is not uniform between the two sections of the industry. There is little question, therefore, that we are dealing now with a branch of the automotive industry which is distinctly different; which has its roots in different soil and which is nourished by different substances.

Though it is hardly necessary to analyze the reasons for this lack of parallel development, or decline, between passenger cars and trucks it is appropriate to mention that the pleasure car derives its sale's success from the prosperity of individuals whereas the truck has developed more as a consequence of changes in industry, distribution, and the flow of economic forces. Because of this it is easier to gauge the near future prospect of the passenger car than it is to do the same for the truck.

Sale Outlook

In essaying this study of the sales possibilities for the manufacturers of motor trucks in the United States it is well to indicate their relative position in the domestic and world automobile industry. For example, our truck manufacturers produce 80.5 per cent of the world's total production. The latest complete figures for the automobile industry within the nation reveal that motor trucks account for about 17 per cent of the total number of units produced and about 20 per cent of the total value of such units. This is the present status of the motor truck manufacturers.

That the motor truck is to remain in the same relative position during the next few years is not borne out by a study of the manner in which factors vital to the motor truck are shaping themselves. Whatever changes that do take place, however, seem destined to be decidedly favorable to the truck manufacturers, without a corresponding injury to any other part of the motor industry.

Because the motor truck and bus have many problems in common the question may arise as to the reason for centering this discussion on the motor truck. In adopting this course there is intended no implication that the bus has reached its greatest point of usefulness or that it shall not enjoy further growth. It is only that this observer believes the nature of the service trucks render gives them a wider field of activity and that the transportation of freight is more stable and more vital than is the transport of passengers. Of even greater importance, however, is the fact that current conditions and happenings are pointing to a more immediate and more extensive expansion of truck services.

The greater usefulness and extent of the motor truck may be illustrated by mentioning that in 1930 there were 3,480,939 motor trucks registered in the United States while reliable estimates place the number of buses in operation at 95,400. Another way in which it is possible to indicate the greater possibilities of the motor truck is by referring to the freight and passenger revenues of the railroads. The 1930 figure for freight is slightly more than four billion dollars and passenger revenue during the same period was 729 million dollars.

Furthermore, the ever widening use of the private pleasure car suggests that the motor bus has certain definite, if at present unknown, limitations. It will be less difficult to ascertain these limitations when passenger fares of buses are stabilized and regulated—as they most certainly will eventually—thus allowing the railroads more equitable competitive conditions. When this occurs the bus and railroads will each work out their respective functions and spheres of influence under circumstances more or less permanent. Not until that time will it be possible accurately to gauge the proportion of passenger business the bus will ultimately receive.

Buses, of course, will continue to supplant trolley cars; they will be used in increasing numbers by air transport companies as that type of transportation expands. Railroads will undoubtedly use them more frequently, especially when present restrictions are removed, and new highways will be built over which new bus lines will operate. But there are many valid reasons for supposing that during the next several years the motor truck's expansion will be considerably more rapid and economically more significant than the bus. It should be remembered that the truck is performing, and will continue to perform, a service which cannot be supplanted by the private automobile and which should prosper in much the same proportion that the movement of commodities and merchandise increases.

Federal Regulation

In considering the future of the motor truck—that is the manufacturing end of it—we must not allow the current controversy between the railroads and truck operators regarding Federal regulation to arouse apprehensions regarding the continued use of trucks in the probable event that the railroads win their point.

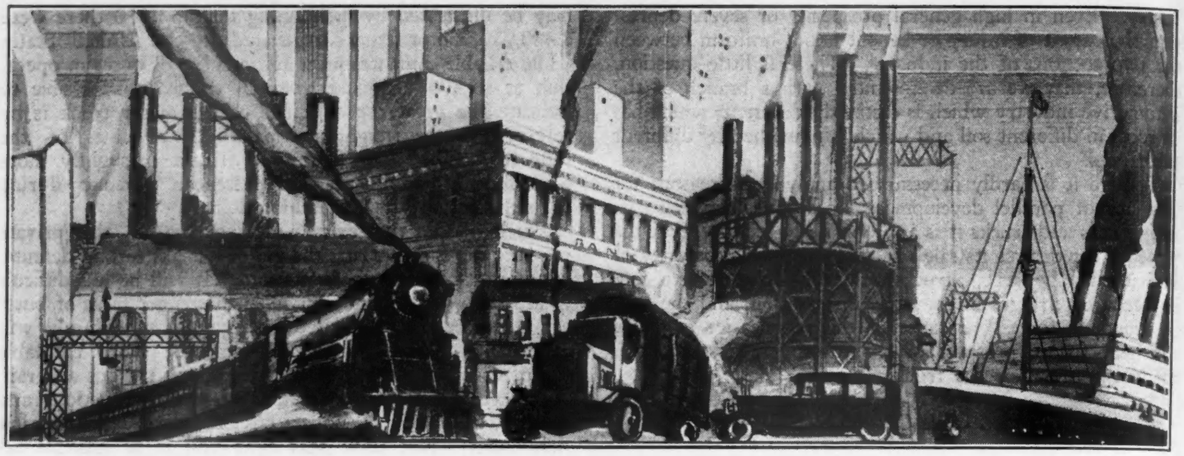
There is abundant authority to support the contention that the railroads have no desire to clear the highways of motor trucks that compete with them for the public's freight. The rail carriers desire only that the motor truck

(*Please turn to page* 367)

Three Leading Truck Companies

Name of Company	Registrations 1929	Registrations 1930	Registrations 1931	Per Share Earnings 1929	Per Share Earnings 1930	Per Share Earnings 1931	Working Capital (latest available)
International Harvester	31,000	24,000	13,604 A	$7.10	$4.55	....	$225,468,000
Mack Trucks, Inc.	6.800	4,900	1,968 A	3.59	Nil	Nil C	34,319,000
White Motor Company	6,100	4,400	1,612 A	9.05	2.60	Nil B	24,166,000

A—Seven months. B—Nine months. C—Six months.



The Ten Outstanding Investments for 1932

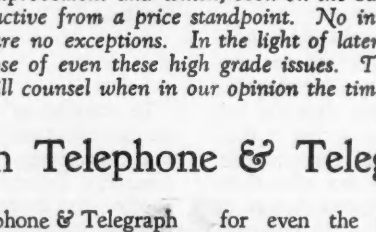
Expected improvement in business conditions in the new year which has just opened will be accompanied by appreciation in security values. To participate in such gain with a high degree of safety of principal and fair dividend return is of course the universal objective.

In endeavoring to meet this condition we have therefore selected ten stocks which represent companies of fundamental financial strength, whose industrial prospects place them near the head of the list of those likely to reflect quickly general improvement and which, even on the basis of today's conservative valuations and high yields, we consider attractive from a price standpoint. No investments, however, can be made at this time and forgotten. These are no exceptions. In the light of later developments in 1932 it may prove desirable to take profits and dispose of even these high grade issues. The market outlook which appears in every number of this Magazine will counsel when in our opinion the time is ripe for such action.

American Telephone & Telegraph Co.

NOT the least of the American Telephone & Telegraph Co.'s achievements is that of inducing nearly 650,000 individuals to invest their money in the enterprise, for the equal is not to be found in corporate history. What are these remarkable qualities which make the company so attractive to investors?

Many companies in the past have made more money for a stockholder; many companies hold out the possibility of being more profitable in the future; but few can point to such a record of steady and consistent growth, the payment of cash dividends for nearly fifty years and, if one excepts the late bull and bear market era, such price stability as is found in the history of the American Telephone & Telegraph Co.



Such a record inspires a feeling of security in the company's common stock, only rarely found in such issues. It might at one time have been duplicated by certain railroads and utilities but for the fact that the latter have been stricken by the blight of governmental interference. This fate the big telephone company has escaped only by virtue of the fact that its army of stockholders, their families and their friends is a formidable force for even the most reckless of politicians to combat.

Furthermore, there is the additional bar to political interference in that the company has demonstrated clearly the recognition of a duty towards the public. It has officially stated in so many words time and time again that earnings above a reasonable rate would be passed back in the form of lower charges and by reasonable earnings was meant income sufficient to safeguard the company's credit standing. This implies that even in prosperous times nothing very much in the way of increased cash dividends can be expected. On the other hand it also implies that the company would resent bitterly being forced to cut the present rate of $9 a share, except possibly as a temporary emergency measure. It might be mentioned in passing that there is yet no evidence of the existence of such an emergency. Earnings for last year are expected to cover the regular disbursement with a small margin to spare.

Physically the magnitude of the American Telephone & Telegraph Co. almost defies the imagination. It is both a holding and operating company and the assets of the

system exceed five billions of dollars. At the end of 1930 it controlled some 15,682,000 telephones, or more than 75% of the total in the United States, or slightly under 45% of the world total. The company offers wire telephone service to neighboring countries such as Canada, Mexico and Cuba, while by means of radio each instrument in the United States can be connected with almost every other in the world.

Other interests include the manufacturing subsidiary, Western Electric Co., which rivals in size the giant General Electric Co. and is far larger than the Westinghouse Electric & Manufacturing Co. Western Electric in turn has subsidiaries among which is the Electric Research Products, Inc., formed to promote commercially the inventions of the Bell Telephone Laboratories which has done so much in television and sound amplifying and recording devices. Western Electric also controls Teletype Corp., which manufactures apparatus for sending and receiving typewritten messages by wire. Incidentally the Western Union-Postal Telegraph combination has lately entered the field and expects to offer Teletype the keenest kind of competition.

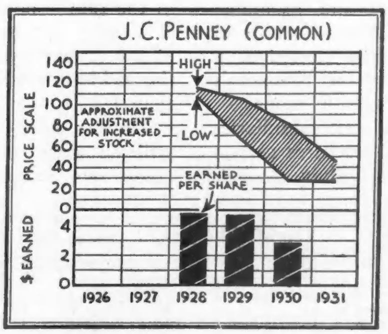
Despite the inherent stability of the business, American Telephone & Telegraph has not been wholly immune from the effects of the present depression. Earnings for 1930 were equal to $9.22 per share of common stock outstanding at the end of the year compared with $12.57 for the previous year. For the first nine months of 1931, the company reported earnings of $7 a share for the average number of shares outstanding during the period.

Nevertheless, the period through which we have just passed is hardly a criterion of the future and it must be remembered that even in this difficult time the American Telephone & Telegraph Co. was able to cover the regular payment on its common stock—albeit by a small margin. No mention of the company's financial strength need be made, for the very name assures it. The issue at current prices is attractive for income primarily, although moderate price appreciation over a period of time could reasonably be expected.

J. C. Penney Co.

OPERATING a chain of nearly 1,500 small department stores, J. C. Penney Co. is highly placed in that small minority of organizations which have been successful in taking steps to offset depression's adverse influences. Naturally a certain amount of damage was done before the company could cope with the situation, but afterwards the fact that general business went from bad to worse seems to have had little further effect.

This may be seen from the company's statements. For 1929, net sales of slightly less than $210,000,000 resulted in a net profit equivalent to $4.66 per share of common stock. In 1930, sales of $193,000,000 reduced the net for the common to $2.88 a share. Perhaps some might consider this disappointing, but the balance sheet clearly showed that the machinery making for improvement already had been set in motion. During 1930 inventories were reduced more than $14,000,000 and about $5,000,000 of this was directly reflected in increased cash.



Continuing the record, Penney's sales for the first six months of 1931 totaled $77,400,000 compared with $86,500,000 for the first six months of 1930. Nevertheless, earnings in the later period were equal after the usual deductions to $1.46 a share against $1.14 for the corresponding period of 1930. For the full year 1930, earnings are estimated at slightly in excess of $3 a share. If such a showing be substantiated it would mean that the regular dividend of $2.40 a share had been covered very comfortably and that the present yield of more than 8% suggests a greater degree of risk than exists in actuality.

There is also nothing in the company's future about which one need be particularly fearful. The single uncontrollable factor most damaging to retail business where it is necessary to carry large stocks of merchandise is undoubtedly a drastic decline in prices. Not only does such a price decline entail severe inventory losses but it often reacts unfavorably on sales, for no one likes to see an article for which they paid so much one week selling for twenty per cent less the next. J. C. Penney, however, has already successfully negotiated an unprecedented price decline and, although it is conceivable that a further recession be seen, it must obviously be on a more gradual scale or merchants would be paying one to take their wares!

But a further lowering of wholesale prices, albeit upon a moderate scale, is to put the future in the worst possible light. It is more reasonable to expect moderately rising prices or at least stability and those merchandising companies which have demonstrated true capability during the depression will emerge from it stronger than when they entered it. In the case of the J. C. Penney Co. all the economies effected by the company will yield their full benefits, unoffset by inventory losses, and rapidly rising earnings on the common would be a logical expectation.

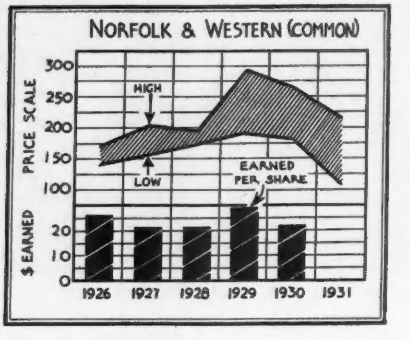
Norfolk & Western Railway Co.

OF all the actively traded railroad common stocks listed on the New York Stock Exchange, there was recently only one selling for more than $100 a share—Norfolk & Western. This is quite a distinction in itself. Moreover, it is well warranted, for despite the depression the road will be among that very small minority to earn in 1931 the regular dividend—to say nothing of the usual extra on its junior shares with a margin to spare.

The comparative excellence of this showing may be attributed to a number of causes. In the first place the road is small and compact. Only about 2,200 miles of track are operated stretching westwards from the port of Norfolk into the coalfields of Virginia and West Virginia. Physically the property is in excellent condition and fully capable

of handling an extraordinarily heavy volume of freight. Most of the main track is equipped with 130-pound rail and throughout the entire road very little weighing less than 100 pounds to the yard is used.

Likewise locomotives and freight cars are maintained in much better condition than the average for the United States as a whole. The road operates a number of double unit electric locomotives of tremendous power and rather curiously perhaps it is no uncommon occurrence to see a train of loaded coal cars being pulled by electricity.



Financial factors also contribute to Norfolk & Western's enviable position. The capitalization is extremely well balanced and funded debt per mile taking into consideration the high traffic density is far from being a burdensome obligation even during the present time of depression. Out of a total capitalization of around $276,000,000 only about 38% is in bonds, the balance consisting of 230,000 shares of 4% non-cumulative preferred stock of $100 par value, followed by 1,406,483 shares of common stock also of $100 par value.

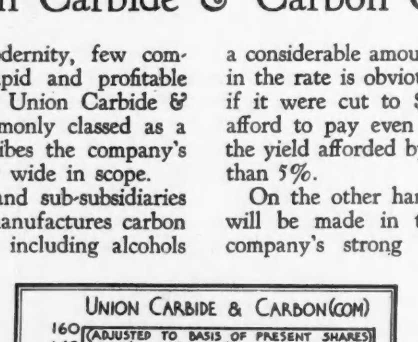
The trend of per share earnings was sharply upward following the post war business crash, the peak being reached in 1929 when more than $29 a share was shown. For 1930, there was a recession to $21.97, while last year's earnings are likely to be little more than $14 a share. Even this, however, will comfortably cover the regular dividend of $10 and the customary extra of $2, just declared. Moreover, in view of the comparatively small bonded indebtedness it will assure a high margin over fixed charges and the road will be among the few suffering little if any impairment of its credit standing.

In addition to the favorable regard created by Norfolk & Western's performance under conditions of unprecedented difficulty, other considerations auger well for the future. Not only is the road a well maintained property serving the richest coal district in the country, but there would seem to be no possibility of financial troubles reversing its bright prospects. Norfolk & Western enjoys a high credit standing, is financially strong, possesses valuable outside investments and no large debts fall due within the next two or three years. The common stock has suffered marketwise, however, from the generally deplorable railroad situation. But this is advantageous, for it enables one to purchase an interest in the property around the lowest price in years.

Union Carbide & Carbon Corp.

ESSENTIALLY a product of modernity, few companies can point to a more rapid and profitable growth than that shown by the Union Carbide & Carbon Corp. The enterprise is commonly classed as a "chemical" but this inadequately describes the company's activities which are almost unbelievably wide in scope.

Through several dozen subsidiaries and sub-subsidiaries the Union Carbide & Carbon Corp. manufactures carbon products of all kinds, many chemicals including alcohols and solvents used in the paint and other trades, calcium carbide for generating acetylene gas as well as the commercial gases oxygen and hydrogen, mechanical apparatus employed in the use of acetylene gas, the famous "Eveready" batteries, lamps and flashlights, metal alloys and graphite products. In addition, the company possesses valuable hydro-electric power resources, quarries and mines.



This formidable list of products, among which are many with consumer goodwill built up by extensive advertising, undoubtedly has had a stabilizing influence upon the company's revenues. It has been insufficient, however, to offset the extraordinarily drastic decline in general industrial operations, so that earnings have shown a considerable decline from the peak of 1929.

Net income for 1930 was equal to $3.12 a share of common stock compared with $3.94 a share on a slightly smaller number of shares for the previous year. For the first nine months of 1931, $1.54 a share was reported against $2.22 for the corresponding period of 1930. In view of this showing, it appears certain that Union Carbide for the past year failed to cover the regular dividend of $2.60 by a considerable amount. Under such conditions a reduction in the rate is obviously more than a possibility. But even if it were cut to $1.50—which the company could well afford to pay even supposing no business improvement—the yield afforded by its common stock would still be more than 5%.

On the other hand it is just possible that no reduction will be made in the immediate future because of the company's strong financial position. At the end of 1930, Union Carbide had more than $110,000,000 in current assets of which some $48,000,000 consisted of cash, call loans, or marketable securities. Current liabilities amounted to only about $14,000,000. This position is even more impressive by reason of the fact that the sole capitalization consists of 9,000,743 shares of no par common stock. The parent company has no funded debt and that of subsidiaries totals less than $10,000,000.

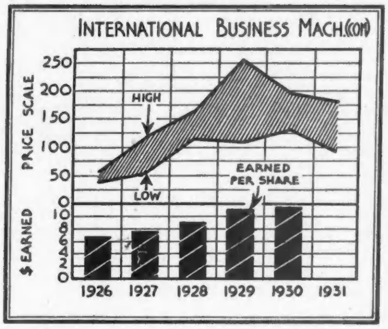
Union Carbide is enviably situated to combat the present depression. Its specialties assure a moderate income almost regardless of general conditions and it can well afford to wait the inevitable pick-up in industry when profits again undoubtedly will be entirely satisfactory. Moreover, the company being a manufacturer of the raw materials used by all sorts of other manufacturers will not have to await a state of actual prosperity for the country as a whole before showing material improvement. Rather it will tend to anticipate the lifting of depression's clouds. It is perhaps for this reason that the present price of $29 a share for the company's stock represents a somewhat higher price-earnings ratio than many other issues whose prosperity is likely to be longer delayed.

International Business Machines Corp.

ORGANIZED in 1911 as the Computing-Tabulating-Recording Co., few companies can point to a record of more consistent and profitable growth than the International Business Machines Corp. It has done away with that old-fashioned scene in which clerks on high stools solemnly entered figures in a ledger, added and subtracted them day in and day out. Figures are now mechanized and International Business Machines Corp. has been principally responsible for the change.

The company now manufactures more than 600 different models of machines. In addition to a well diversified line of office appliances including tabulating, accounting and time keeping devices, such things as coffee grinders and meat slicers are also manufactured.

Factories are located both in the United States and abroad. The plants in Canada, Germany and France afford considerable assurance that the effects of any tariff wars which may develop in the near future will be minimized. While the greater part of the company's profits are derived from domestic business, distribution is world-wide, for branch offices are maintained in all the principal cities of the globe.



The excellence of the company's past record can best be summed up by saying that net income has increased in each year since 1921 and that the generally disastrous 1931 bids fair to be no exception. For 1929 net income was equivalent to $11.03 a share of common stock, while for 1930 $11.53 was reported on a slightly larger number of shares. Estimates for the year just passed place the company's earnings somewhat higher than in the previous twelve months, although the additional amount of stock at present outstanding is expected to result in per-share earnings being moderately lower. This will be a particularly good showing in view of the fact that the average results of a number of other companies operating in the same general field are likely to be as much as 50% under those of 1930.

Dividends have been maintained without interruption since 1916. The present rate is $6 in cash annually, having been raised from $5 in the first quarter of 1930. Towards the end of the past three years the company has declared an extra disbursement of 5% in stock. On the regular cash rate only, the issue at present prices of about $100 a share yields 6%. If the 5% in stock be taken into consideration the yield becomes 11%.

Financially, International Business Machines Corp. is in a strong position. Funded debt has been steadily retired and fixed income bearing obligations now outstanding total only about $2,000,000. At the end of 1930 current assets amounted to almost $11,000,000 of which cash and U. S. Treasury certificates accounted for slightly less than half. Current liabilities were less than $3,000,000.

While it has been often said that the manufacturer of office equipment will be among the last to feel returning prosperity, this statement is not wholly applicable to International Business Machines. In the first place the company has already demonstrated its extraordinary capabilities at a time when others in the field have almost without exception been hard hit and there is no reason to suppose that improvement in general business would be the signal for a slump in this particular enterprise. In the second place it is the company's policy to rent many of its machines and, although it might be difficult to persuade an individual just recovering from a series of hard knocks to buy outright an expensive piece of apparatus, he would be willing to rent one if his income were only moderately increased.

Finally, it is impossible to conceive that the foreign situation will continue forever demoralized and when it changes for the better International Business Machines ought to be among the first to feel the effects. Indeed, mere stability in foreign exchange, whatever the relationship to gold, would be of inestimable benefit. Potentially the foreign market for the various devices manufactured by the company is unlimited.

Public Service Corp. of N. J.

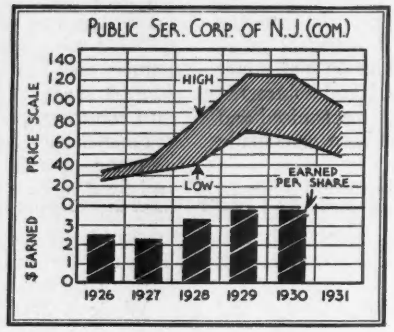
IT is not often that one encounters a company whose name is as appropriate to its business as that of the Public Service Corp. of New Jersey. It provides electricity, gas and transportation throughout the state, serving in one way or another some 90% of the population.

The company's past history has been one of uninterrupted growth, which is a direct reflection of the fact that the population of New Jersey has increased much faster than that of the country as a whole. Even the depression year 1931 is likely to result in per-share earnings somewhat ahead of 1930. Not only is the company favorably situated by reason of the fact that revenues are derived from various services, but it also enjoys the benefit of many widely different industries and an excellent balance between residential and industrial customers.

Net income available for the common stock in the years 1928, 1929 and 1930 was equal to $3.28, $3.93 and $3.92 a share respectively. For the first nine months of 1931 the company earned $2.59 a share on its common stock against $2.55 in the corresponding period of the previous year. In the later period sales of electricity continued to increase despite the fact that there was some slackening in industrial demand. Gas sales also held up well and at a recent date the number of both gas and electric meters in operation was the greatest in the company's history. Transportation on the other hand continued to result in a deficit although it is understood that a smaller loss was incurred than in other comparable periods. Not the least important cause of the favorable showing, however, was a marked reduction in operating expenses.

As might have been expected in the face of these results, the company's credit standing has been unimpaired. This is in such contrast to so many foreign countries and even certain of our own states and cities to say nothing of industry in general as to be noteworthy. It also makes it unnecessary for the company to maintain an excessively strong working capital position in case of contingencies.

Evidence of the well-earned esteem in which the company is held by investors was the recent refunding of more than $22,000,000 of subsidiary 5% bonds by a 4% issue, the substitution of a large amount of 6% preferred by 5% preferred and the continued demand for the latter issue on the part of small customers who can buy it on the installment plan.



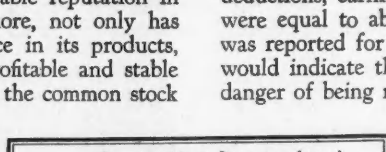
At the present time the company's common stock can be purchased for about $52 a share, at which price it affords a well-protected yield of some 6½%. It should be noted that at this price an investor is paying little, if anything, for the company's clearly defined prospects.

A number of reasons may be cited for believing that the Public Service Corp. of New Jersey faces a profitable future. The most important of these rests on the expectation that the population of the state will continue to grow rapidly, and this in turn depends largely upon improvement in transportation facilities. Here, tremendous progress has recently been made. There was first of all the Hudson Vehicular Tunnel running from Jersey City to down-town New York and then closely following one another the Kill Van Kull bridge between Bayonne and Staten Island and the George Washington bridge which crosses the Hudson at 168th Street, New York City. Furthermore, as tending toward the same result, it may be said that the State is in the midst of a very extensive road building program, for which a hundred million dollars was raised not so long ago.

All of these developments are making Jersey more important industrially as well as residentially and that the trend so clearly evident in the last census is continuing unbroken is easily confirmed at first hand. It cannot fail to benefit the Public Service Corp. of New Jersey.

Beech-Nut Packing Co.

WHILE the Beech-Nut Packing Co. is considerably smaller than either General Foods or Standard Brands nevertheless it has built up since the beginning of the present century an enviable reputation in the field of food specialties. Furthermore, not only has the company a reputation for excellence in its products, but it has long proved itself to be a profitable and stable investment medium. Cash dividends on the common stock have been paid at steadily increasing rates since 1902.



At the present time Beech-Nut manufactures a very diverse line of products. They range from meats sold in bulk and in packages, to preserves, jellies, coffee, biscuits and a number of candy and chocolate products. It is not improbable that this very diversity has contributed much to the stability of earnings, despite the fact that the depression and resulting decreased purchasing power of the last two years have not been entirely without effect.

The company's capitalization is most simple. It consists almost solely of 446,250 shares of common stock of $20 par value. There is neither funded debt nor mortgage. There are, however, 45 shares of non-redeemable preferred stock still outstanding and a small minority interest in various subsidiaries.

Earnings, following the five-for-one split up and various stock dividends in 1922 and 1923, have been very stable between $5 and $6.50 a share. Including a small profit on the sale of securities, for 1929 they were equal to $6.06 per share of common, which dropped to only $5.52 a share for 1930. Estimating federal taxes and after the usual deductions, earnings for the first nine months of last year were equal to about $3.60 a share, or about $1 less than was reported for the corresponding previous period. This would indicate that the present dividend of $3 was in no danger of being reduced and the yield of 7½% at present prices may be considered both safe and attractive.

Beech-Nut has a well organized distribution system. A Canadian and British subsidiary distribute in their respective countries, while in the United States chain and other stores make the company's products available everywhere. In 1927 the company entered into a ten-year contract with the United Cigar Stores of America whereby the latter acquired 50,000 shares of Beech-Nut and contracted to feature its products. Most of this stock was afterwards sold to the Gold Dust Corp.

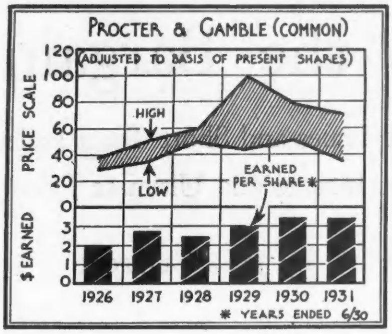
Not the least of the assurances for Beech-Nut's prosperous future is the company's strong financial position. As of June 30, last, current assets were more than sixteen times current liabilities. Cash alone was more than double current liabilities. This position becomes doubly attractive when consideration is given to the lack of debt in the company's capitalization and therefore freedom from the danger of having to finance during times like the present.

Procter & Gamble Co.

MANY companies which expanded recklessly in 1928 and 1929 are now paying dearly for their lack of foresight. They are burdened with obligations contracted at the peak of prices and are faced with general conditions which make it almost impossible to refinance or borrow money. Not so Procter & Gamble. True, the company expanded moderately in the boom years, but it was later as the depression intensified and prices tobogganed that the company began to take advantage on a large scale of the opportunities so presented.

In 1930, control of Thomas Hedley & Co., Ltd., was acquired and its plants materially expanded. Hedley is the

largest independent soap manufacturer in England. The company has olive groves and pressing plants in Spain and does an extensive export business. In the same year Procter & Gamble purchased James S. Kirk & Co. of Chicago, an acquisition which added materially to its line, eliminated much duplication of effort in an important territory and gave it a stake in the cosmetic and fancy soap field. Later, Procter & Gamble entered Cuba and in recent times has built several new plants in the United States and renovated others.



That this expansion has not been carried out at the expense of the common stockholders can be seen from the record of per-share earnings. For the year ended June 30, last, the company reported net income equivalent to $3.37 a share of common stock which was exactly the same as that shown for the previous twelve-month period.

These earnings covered the regular dividend of $2.40 a share very comfortably, and the 6.2% yield at present prices of around $39 a share would appear to be more than ordinarily secure. Recently it was officially stated that although orders for the quarter ended September 30 were some 6% below those of the corresponding period of 1930 they were nevertheless about 2% greater than those of the same three months of 1929.

It was said also that the company was operating more economically than ever before. It will be remembered that the wages of all workmen and executives were cut between 10% and 15% last October and it is presumably to this and to other internal economies that reference was made.

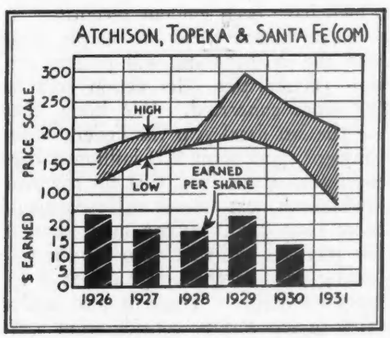
It is this greater operating efficiency which holds out so much hope for the future. When the volume of business improves these savings will still be in effect and it is expected that an increased percentage of the larger gross business will be handed down to the common stock.

Despite the vigorous expansion undertaken, financial position at the end of last June was actually stronger than at the end of the previous year. Current assets amounted to nearly $87,000,000 whereas current liabilities were only slightly in excess of $7,000,000. The company's working capital was therefore not far from $80,000,000, a sum which would appear ample even in the event of unlikely contingencies.

Atchison, Topeka & Santa Fe Railway Co.

DESPITE the clouds of pessimism now surrounding the railroads, it is inconceivable, as some would have us think, that their services will be replaced either by the automobile, truck, pipeline, airplane or waterway. They are an economic necessity at the moment and will be an economic necessity in the future.

This is not to deny, however, that there has been any lack of suffering during the past two years. One glance at a chart depicting the steadily decline in carloadings is quite sufficient to show that the railroads have been hard hit. A number of receiverships confirm it. But this very situation creates an opportunity for the discriminating investor. He is enabled with some little care to select among the country's railroads a few which are still earning a substantial sum on their common stocks and into which he may buy at the lowest price of the last decade. Moreover, low prices prevail regardless of the fact that the prospect for lower wages and higher freight rates hold out definite hope of improvement.



The Atchison, Topeka & Santa Fe is a case in point. This great system operates more than 13,000 miles of track stretching from Chicago southwest to Kansas City which is the center of a vast network of feeder lines. From here several main lines lead westward to join at Albuquerque while one stretches south to Galveston. From Galveston there is a main line westward which joins with the others at Albuquerque and continues on to serve Los Angeles and San Francisco.

As might have been expected in view of the great area covered, Atchison's traffic is well diversified, although the movement of crops causes some 36% of the road's operating revenues ordinarily to accrue in the final three months of the year. Earnings for 1930 were equivalent to $12.86 a share of common stock compared with $22.69 for the previous year. Net operating income for the first nine months of 1931 amounted to $23,141,000 compared with $30,378,000 for the corresponding period of 1930. It is estimated that earnings for the full year 1931 will be slightly in excess of $7 a share.

While anticipated earnings for last year will fail to cover the common dividend of $10 a share, the directors evidently thought that the road's financial position and prospects warranted its continuance at least for the time being, as they declared the regular rate payable early last month. Nevertheless, even if a reduction were made to conform to recent earnings, Atchison common at the current price of $82 a share would afford a substantial return. The present dividend affords a yield of about 12%; if it were reduced to $8, the yield would be not far from 10%; while a $7 dividend would yield more than 8½%.

Not the least important cause of Atchison's comparatively excellent position at the present time is that the property has been steadily built up for a number of years and much of the betterment has never been capitalized. That the road has been chary of an over-large bonded indebtedness is seen from the fact that fixed income bearing obligations account for less than 46% of its total capitalization while non-cumulative preferred stock and common make up the balance. There are no sizable maturities within the next eight or nine years, so that refinancing at a time like the present is definitely among the things for which no fear need be felt—an agreeable contrast to many other large enterprises.

(Please turn to page 362)

Bonds on the Bargain Counter

Second Grade Issues and Short Term Issues Particularly Attractive for Income and Ultimate Price Appreciation

By J. C. Clifford

IS the bond market really a place to which fools go in order to purchase bad debts? Judging from some of the dire prophesies which have been made and if recently prevailing prices accurately discount the future one would be inclined to admit that perhaps it is. On the other hand, the peculiar human trait of believing that things will continue as they happen to be at the moment, puts the matter in some doubt. It is yet too early to forget that the heights had no peak in 1929. Are the depths to have no bottom now?

As a matter of fact, there are indications that the worst has already been seen, for the recent low prices in the bond market undoubtedly had their base in hysteria—and this is certainly not among the chronic diseases. Rather it marks a final phase, the cracking point of reaction to some shock.

We know that confidence in almost all forms of wealth except gold has been undermined, at least to some extent. The public the world over has seen securities, currencies, property and hopes crumble. Those with anything left at all have not unnaturally turned to gold. Their cry has been liquidity at any cost. In the turmoil bonds were beaten down to levels which discount all but world bankruptcy and in such an event it is to be doubted whether the much desired gold itself would be of any use. By every standard which can be applied—and standards have a habit of remaining standards regardless of "new era" theorists—the decline in bonds was ridiculous and can be attributed only to mass panic which as usual had been over-eager to assume the worst.

That the market for bonds became much oversold, even on the dangers which actually existed and all that could be thought up for the future, was indicated by the sharpness of the recent rally. Many issues recovered as much as 50% of their former prices. At the present time the market in general is consolidating its position following the violent gyrations in which so many individual issues slipped out of line. Among the incongruities to be discerned at that time were such things as 6% bonds selling at the same price as 5% bonds of the same company and having identically the same security, senior bonds selling below junior issues of the same borrower, and the bonds of a company worth little more than its preferred stock.

Such curiosities as these, however, will gradually disappear with the passing of panic and we shall settle down to a normal market. This does not necessarily mean a rapidly rising market as a whole but one in which there will not exist the price absurdities which have been evident recently.

Nevertheless, there are ample signs that the market-to-be will possess certain peculiarities. Its action will be far from concerted. We know that for the last fiscal year the Federal Government spent some 900 million dollars more than it received, that for the year which ends next June it will have spent more than 2,000 million more than it has received and that even for the following year another large deficit is almost inevitable. There is also under more or less serious consideration various proposals to spend staggering amounts for this, that, or the other thing.

Under these conditions government financing on a tremendous scale is inevitable. The prospect has already depressed all Treasury issues until only one is currently selling above par and it is likely to depress them still further. Yet another sign of the times is that New York City was recently obliged to pay 5½% for money—an abnormally high rate.

The expected decline in United States Government and high-grade municipal bonds will naturally depress strong bonds of all sorts and these at the present time may be said to be definitely unattractive to the individual investor, except of course to those satisfied with the current return and willing and able to hold them for some years. Most individuals desiring high-grade investments will do better to confine their commitments to the short-term obligations.

On the other hand, perhaps the greater part of the bond market is not selling on a basis which takes interest rates into consideration at all. Almost any issue less strong than the Rock of Gibraltar itself has been thrown on the market for what it would bring regardless of intrinsic worth. This was especially true of domestic railroad bonds. Indeed, they are little better at the present time, although they face a future improved by reason of wage reductions and freight rate increases. It is still possible to find first mortgage bonds of important railroads selling between forty and sixty cents on the dollar even though interest requirements for 1931 have been covered and which it is inconceivable would be disturbed even in the event of receivership. Certain industrial and even utility obligation are in a similar plight.

The market has been particularly harsh even on the underlying bonds of such giants as the United States Steel Corp. and the Bethlehem Steel Corp. As for such less desirable securities as the debentures of many public utility holding companies they can be bought to yield as much as 20% or even more.

It should be noted, however, that there are in the latter group—and also throughout the list for that matter—cases where perhaps the present low prices are not unjustified. This is probably true of the unsecured issues of

those companies where despite earnings satisfactory in normal times there are large maturities due shortly, or which have allowed their current financial position to become unsatisfactory, possibly by the contraction of large bank loans. In these instances justifiable fear is felt lest in the present state of the market it will be impossible to finance by means of capital obligations.

On the other hand, there should be no difficulty in avoiding the danger in such situations. One can either refrain altogether from purchasing an interest in the company, or one can confine one's commitments to its secured issues, for undoubtedly these too will be depressed by the general uncertainty.

With the reservation that it would be reckless to deliberately entangle oneself in financial troubles even at the present extremely low level of prices, it is the medium grade or frankly somewhat speculative bonds on an earnings basis which are so attractive at the present time. By taking a risk with his money no greater than that entailed in simple every-day existence, the investor may obtain not only a very satisfactory current yield, but enjoys the likelihood of substantial appreciation in his capital.

In following this course it is unnecessary to go out of the country, despite the fact that there are undoubtedly many foreign bonds now selling for a few cents on the dollar which eventually will be paid in full. The truth of the matter is that the foreign situation as a whole is remarkable for its obscurity. It is difficult if not impossible to gauge the intrinsic worth of a foreign bond in the first place. But now that fresh tariffs have been enacted, embargos placed and cartels formed, to say nothing of the drastic price decline in the interest-paying products of our debtors, the value of their obligations defies analysis. It is suggested that the market action of this division and also that of very high-grades be accepted at its face value.

But for domestic issues with forced and hysterical liquidation almost, if not entirely completed, and with the knowledge that powerful financial interests are determined that no repetition of the recent extremes shall take place, it would seem prudent to take advantage of the bargains available. They may be purchased in the hope, backed by considerable assurance, that as unreasoning apprehension gradually gives way to confidence they will be restored to levels representing intrinsic worth. In the meantime the income received in itself would normally be considered more than sufficient to warrant their purchase.

Bond Buyers' Guide

NOTE.—The following list of bonds has been arranged solely on the basis of current yields to maturity. The position of any issue in the list is not intended as an indication of its relative investment merit. Readers should observe a proper diversification of commitments in making their selections from this list. The Guide is subject to revision as more favorable issues appear and those no longer suitable, in our opinion, for new purchases, are dropped. Any queries concerning such changes should be directed to our Personal Service Department.

Railroads

	Total Funded Debt (Millions)	Amount of This Issue	Interest* Times Earned 1930	Interest* Times Earned Est. 1931	Recent Price	Yield to Maturity
Norfolk & Western 1st Consol. 4s, 1996......	112	41	7.5	5.4	87	4.6
Atchison, Top. & Santa Fe Gen'l 4s, 1995....	311	152	3.9	3.3	87	4.6
Union Pacific 1st 4s, 1947..................	360	100	3.5	2.5	90	4.9
Northern Pacific Prior Lien 4s, 1997.........	313	107	2.2	1.2	80	5.1
Pennsylvania Consol. 4s, 1948................	607	20	1.9	1.2	85	5.3
Missouri-Kansas-Texas 1st 4s, 1990.........	107	31	2.8	1.2	75	5.4
Baltimore & Ohio First 4s, 1948.............	604	82	1.7	1.2	75	6.1
Kansas City Southern 1st 3s, 1950...........	65	30	1.5	1.2	62	6.5
N. Y., N. Haven & Hartford Ref. 4½s, 1967	258	31	2.0	1.4	67	7.0
Northern Pacific Ref. & Imp. 6s, 2047......	313	107	2.2	1.2	75	8.0

Public Utilities

				Call Price	Recent Price	Yield to Maturity
Phila. Electric 1st Ln. & Ref. 4½s, 1967....	166	34	3.1	105	97	4.6
Duquesne Light 1st 4½s, 1967..............	65	65	6.7	104½	95	4.7
Westchester Lighting 1st 5s, 1950...........	22	9	3.1	NC	102	4.8
Cincinnati Gas & Elec. 1st 4s, 1968..........	35	35	5.3	100	86	4.8
N. Y. Telephone Gen'l 4½s, 1939...........	61	61	3.8	110	97	4.9
Detroit Edison Gen'l & Ref. 4½s, 1961......	129	50	2.9	103½	93	5.0
Illinois Bell Telephone 1st & Ref. 5s, 1956...	57	49	4.8	105	100	5.0
American Telephone Coll. Trust 5s, 1946.....	462	68	6.1	105	99	5.1
Pacific Gas & Elec. Gen'l & Ref. 5s, 1942....	311	36	2.4	105	99	5.1
Denver Gas & Elec. 1st & Ref. 5s, 1951......	46	9	2.3	105	95	5.4
Pennsylvania Pwr. & Lt. 1st 4½s, 1981......	131	121	2.7	105	83	5.5
N. Y. Power & Light 1st 4½s, 1967..........	67	66	2.8	105	85	5.5
Northern States Pwr. 1st & Ref. "B" 6s, '41	100	8	3.3	105	102	5.7

Industrials

Standard Oil of N. J. Deb. 5s, 1946..........	169	120	7.4	102	100	5.0
Procter & Gamble Debenture 4½s, 1947......	11	11	55.0	105	95	5.0
Swift & Co. First 5s, 1944...................	53	23	3.7	102½	100	5.0
Western Electric Debenture 5s, 1944........	35	35	4.3	105	97	5.3
Bethlehem Steel 1st & Ref. 5s, 1942.........	118	13	4.3	105	90	6.2
Goodyear Tire & Rubber 1st & Coll. 5s, 1957..	63	56	2.8	103	71	7.6

Short Terms

Name	Due Date	Amount This Issue (Millions)	Price Call	Price Market	Yield Income Basis	Yield Maturity Basis
Detroit Edison 1st & Coll. 5s...........	1/1/33	10.0	NC	101	4.9	4.0
Corn Products Refining 1st 5s..........	5/1/34	1.8	105	101	4.9	4.6
Norfolk & Western Imp. & Ext. 6s.....	2/1/34	2.0	NC	102	5.9	4.9
Union Elec. Lt. & Power Ref. & Ext. 5s.	5/1/33	6.2	NC	99	5.1	5.7
Bethlehem Steel Purchase Money 5s.....	7/1/36	22.3	105	94	5.3	6.5
Cleve., Lorain & Wheeling Consol. 1st 5s.	10/1/33	5.0	NC	94	5.3	8.3

* On total funded debt. NC—Not callable.

NOTE—Our preferences in the above list, at present, are among the short term and second grade issues. The high grade long term bonds in the list will be subject to the possible adverse factor of higher money rates. Consequently, commitments in this class might well be postponed unless they are assumed for a period of years.

Paving the Way for Railroad Recovery

What Wage Cuts, Freight Rate Revisions and New Credit Facilities Really Mean to Rail Investors

By Pierce H. Fulton

CONFIDENCE in railroad bonds is returning, and with ample justification. Railroad stocks have lost some of the sharp recovery of December 18th but they will not be long in recognizing the fact that the senior obligations have touched bottom and are rising above the absurd levels which discounted everything but universal railroad receivership.

There are well defined reasons for the recovery. With the opening of the year and with January 1 interest and dividend money in hand, investors should be fully advised as to just what has happened.

In the first place, it should be recalled that the protracted slump in railroad securities halted on the very day that Thomas W. Lamont of J. P. Morgan & Co. gave reassuring testimony in Washington relative to the international loan situation, and suggested that the attention of Congress should be directed first and most actively to the remedying of domestic problems, notably those of the railroads.

On that same Friday, not the 13th, but the 18th, of December, the leading railway executives of the United States held an all-day session in New York City to take final action on a proposal of the union leaders to negotiate the 10% reduction in wages that they had been asked by the railroads to accept "voluntarily." The word went out from that meeting long before adjournment that the executives were likely to harmonize their differences as to negotiation, and that there was good reason for believing that the union leaders would agree to the cut.

The executives did agree on negotiation. Daniel Willard, president of the Baltimore & Ohio Railroad, their unofficial spokesman, personally informed President Hoover of this fact the next morning in Washington, and likewise expressed confidence in a favorable outcome of the negotiations on the wage cut.

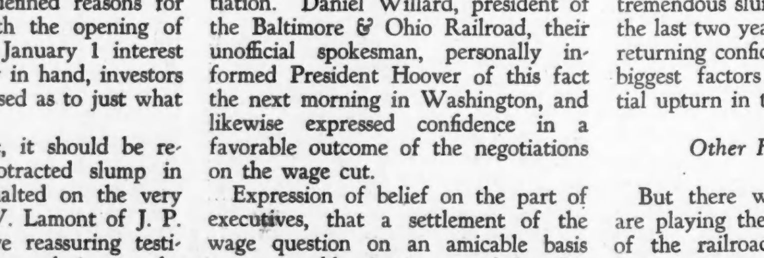
Expression of belief on the part of executives, that a settlement of the wage question on an amicable basis was reasonably certain, caused thoughtful students of railroad values to realize that, within a short, time, the position of the railroads might appear much less serious—to speak bluntly—that further receiverships might be averted.

In brief, all such had their confidence in the future of railroad securities restored sufficiently to buy them on a larger scale than they had for a long time. Lack of confidence had been one of the biggest factors in the tremendous slump in those securities in the last two years. By the tame token, returning confidence will be one of the biggest factors in a further substantial upturn in their market values.

Other Factors at Work

But there were other factors that are playing their part in the recovery of the railroad situation.. If those factors operate as hoped, and even expected, they should prove the salvation of the railroads until the business of the country recovers and railroad earnings expand proportionately, so that they not only can meet their fixed charges without help and also show a return for their shares sufficiently large to restore credit.

The following are the most important new factors in the position of the railroads at the moment and which are expected to play a still bigger part a little later


Courtesy, Pennsylvania R.R.

With the help of the Reconstruction Corporation the railroads can take care of their nearby maturing obligations.

Deficits in fixed charges can be offset by the increase in freight rates and wage adjustments.

Further receiverships can be averted.

Can railroad securities fail to reflect this prospect?

on. They should be given a most careful consideration by all who wish to understand the railroad situation and who may be contemplating buying railroad securities:

1.—Increased freight rates on certain commodities, authorized by the I. C. C., and in effect since January 4.

2.—Proceeds to be pooled and loaned to railroads needing help with their fixed charges.

3.—Expected that at least $100,000,000 additional earnings will be realized from this source.

4.—Proposed reduction of from 10 to 15% in wages of organized labor, which, it is estimated will increase net railway operating income at least $150,000,000 annually.

5.—Believed that labor leaders will accept a 10% cut.

6.—Here would be an increase of at least $100,000,000 in gross and a $150,000,000 reduction in operating expenses, a total of $250,000,000 a year added to the income of the carriers.

7.—This would be one-half the $500,000,000 aggregate fixed charges of Class I railroads a year.

8.—Private advices from Washington recently have stated that, as business improves and will stand it, the I. C. C. will be willing to make further advances in freight rates.

9.—Definite understanding that a powerful banking pool has been buying enough bonds for several weeks to steady the market.

10.—Organization of the Reconstruction Finance Corp. by the Government to make loans to railroads for refunding maturing bonds.

A few words of explanation regarding each one of these factors. The proceeds of the increased freight rates which went into effect January 4 apply only to certain specified commodities, designated by the I. C. C., and are to continue in effect until March 31, 1933, unless extended beyond that date.

These monies are to be turned over by the individual roads to a company recently organized under Delaware laws and called the Railroad Credit Corp. It will loan money on approved applications and collateral to roads that are not able to earn, or to pay their fixed charges out of treasury funds. This arrangement is a substitute suggested by the Commission for the 15% general increase in freight rates asked for by the railroads, but which it refused to authorize. It is intended to avert receiverships while the plan is in effect by making unpaid deficits on fixed charges practically impossible.

This should go a long way toward restoring confidence in railroad bonds, and likewise should help railroad credit proportionately. Just what the total of deficits on fixed charges of Class I railroads in 1932 will be, no one, of course, can even estimate accurately. Obviously the amount will depend upon the trend and volume of earnings. Estimates have been made, more or less officially, running all the way from about $46,000,000 to approximately $100,000,000. If traffic and earnings improve materially, the former figure might prove to be considerably too large. If, on the other hand, the slump in earnings should continue, even only for the first half of 1932, the latter figure might not prove large enough. It is to be hoped that this supposition will not be substantiated by actualities.

Before going further it should be made entirely clear that no living person has or can get the data on which to make even accurate estimates as to what amount will be realized in the aggregate from increased freight rates or what will be the aggregate deficits of the carriers on their fixed charges. These matters are of such vital importance, however, that conservative estimates are wholly justifiable. If railroad earnings improve greatly this year and the deficits are inconsiderable, the roads contributing the increased earnings to the Railroad Credit Corp. should have a substantial amount of additional income returned to themselves. The balances over the amounts needed to cover the deficits on fixed charges are to be returned to the contributing roads at regular intervals.

No More Receiverships?

Here again the amounts that may be so turned back can only be estimated and not stated in definite figures. But whatever the amounts in the various instances may prove to be, every holder of railroad stocks and bonds, and prospective buyer of them as well, should realize what it will mean to the millions of owners of those securities if there are to be no more railroad receiverships between now and March 31, 1933.

While no one can state definitely, it seems reasonably certain that railroad labor leaders and a committee of nine railway executives, who are to put their feet under the same table soon, will get together on a 10 or 15% reduction in wages. They had a week of conferences in Chicago early in December, but neither side then had the power of actual negotiation. This has been given to both sides since. At the preliminary gatherings the views of both sides were fully stated. A friendly spirit prevailed.

As a result of the conferences about to be held, it is believed that not only will an agreement be reached on the specific cut in wages that has been proposed for one year, but also that a better mutual understanding will be reached than has existed at any time since railroad unions attained the power that they have had and exercised in recent years. This is something that no one can measure in dollars and cents.

As railroad wages now total approximately $2,000,000,000 a year, a 10% reduction would, of course, theoretically cut operating expenses and increase net railway operating income $200,000,000 a year. This is not an altogether accurate figure, as a part of the wages embraced in the $2,000,000,000 annual wage bill is paid to non-union employes, whose wages and salaries have been reduced already. However, even if $50,000,000 should be subtracted on account of this latter consideration, there still should be a saving of $150,000,000 a year. Quite possibly this may prove to be a more accurate figure than the larger one.

Added to the $100,000,000 increased freight rates, here would be at least $250,000,000 a year more than the railroads are now getting. As annual fixed charges of Class I roads are about $500,000,000 a year, here would be at least one-half of that amount with business at stagnation levels. As no one would care to predict that in 1932 Class I roads will not be able to earn in the aggregate at least one-half their fixed charges, it is practically inconceivable that there should be further receiverships in 1932, because of inability to meet that class

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Market Indicators

For Profit

Capital Gains Tax

At last the repeal of the capital gains tax is to be seriously considered. It is known to be uneconomic. It is known to have done untold damage by adding oil to the flames of our late-lamented bull market, for what inducement was there to take profits on securities if the Government were going to seize a large part of the receipts? But despite the fact that no good can be found in this particular tax, there is absolutely no excuse for making its repeal retroactive. The Government collected in the good years, as everyone said it would; the Government should now suffer in the poor years, also as everyone said it would. It is difficult of course to make a government suffer, for any mess into which it should get itself is invariably passed along to the unfortunate public. This particular program, however, is more than ordinarily vicious because it is inequitable. There is something particularly revolting in winning the first game and then changing the rules in order to win the second. We suggest that tax paying investors voice their disapproval in no uncertain terms.

* * *

Symptom of Revival

According to the forecast of the Copper and Brass Research Association, building construction in 1932 will total 3,420 million dollars, an increase over 1931 of about 17%. This does not include public works, the amount of which may be stupendous if Congress seeks that route for the relief of unemployment and the release of economic power. The building industry may not be able to come back fast enough to give business revival a kick-off, but if it shows recuperation in the next few months it may be taken for granted that the expansion sector of the business cycle has set in.

* * *

Our Enterprising Salesmen

We have often heard in the past year or two chronic pessimists remark that they expected to see certificates for United States Steel replace United Cigar coupons. As a matter of fact they were not voicing as original an idea as they thought, for it was back in the early nineteen hundreds that an enterprising New York tailor first offered to present every purchaser of a suit of clothes a share of United States Steel—then worth around $8. An automobile company has just resurrected the old gag, "Buy a second-hand roadster and receive free ten shares in a nationally known radio company, or buy a coach and go into the railroad business."

Long suspected, now we *know* our present security markets to be a joke.

* * *

Sears, Roebuck

It was recently believed that there was nothing new left for Sears to sell. This, however, has proved incorrect, for the company in entering the field of powered agricultural machinery has added an important line to its houses, clothing, furniture, and even tombstones. But the new addition of great-

One-Line Analyses of Common Stocks in this Issue from The

Information as of

	Company	Ticker Symb.	Listed	Rating	Business	Funded Debt	Shares Outstanding	Par	DIVIDENDS Rate	DIVIDENDS Payable	DIVIDENDS Record Date
1	American Tel. & Tel.	T	N	A1	General communications	462,615,700	18,581,155	100	9.00	q-1/15	12/19K
2	American Tobacco 'B'	ATB	N	B1	Full line of tobacco prod.	1,064,350	3,134,458	§25	5.00*	q-12/1	11/10
3	Anaconda Copper Mining	C	N	D1	Copper production	2,110,000	8,911,147	50	11/15	/31 div.	passed
4	Atch., Top. & Santa Fe	A	N	D1	West & Southwest carrier	312,000,000	2,427,595	100	10.00	q-12/1	10/30
5	Beech-Nut Packing	BNU	N	A2	Confections & food prod.	None	446,250	20	3.00	q-1/1	12/12P
6	Chesapeake & Ohio	CO	N	D1	Coal carrier	230,453,200	7,656,012	25	2.50	q-1/1	12/8
7	Norfolk & Western	NFK	N	D1	Bituminous carrier	103,239,500	1,406,508	100	10.00*	q-12/19	11/30
8	du Pont de Nemours	DD	N	B1	Chemicals & explosives	1,500,000	11,065,667	20	4.00	q-12/15	11/25
9	Internat. Business Mach.	IMN	N	B1	Office machinery	2,987,000	669,851	No	6.00	q-1/11	12/21
10	Internat. Tel. & Tel.	IT	N	B2	Foreign communications	136,583,746	6,642,508	No	1.00	q-10/15	9/18
11	Lorillard Co., P.	LOR	N	B2	Tobacco products	33,679,150	1,909,160	No	1.20	q-1/2	12/15
12	Macy & Co., R. H.	MZ	N	B1	Leading N. Y. dept. store	900,000-M	1,437,672	No	3.00*	q-2/15	1/22
13	Montgomery Ward	M	N	B2	Mail order & chain stores	None	4,620,768	No	....	....	....
14	Penney Co., J. C.	PEJ	N	B1	Dry goods chain	3,283,000	2,468,861	No	2.40	q-12/31	12/19K
15	Pennsyl.-Dixie Cement	PXC	N	C4	Cement producer	11,135,000	400,000	No	....	....	....
16	Procter & Gamble	PGM	N	A1	Soap & food products	10,600,000	6,410,000	No	2.40	q-11/14	10/24H
17	Pub. Service of N. J.	PUB	N	A1	Power, light & trans. utility	229,657,601	5,503,193	No	3.40	q-12/31	12/1
18	Union Carbide & Carbon	UN	N	B1	Chemicals & specialties	12,758,700	9,221,402	No	2.60	q-1/1	12/2
19	Warren Bros. Co.	WAR	N	C1	Asphalt paving	3,744,044	472,944	No	10/1/	31 div. p	assed
20	Woolworth, F. W.	Z	N	B1	5-and-10-cent chain stores	3,437,500-M	9,750,000	10	2.40*	q-12/1	11/2

M—Mortgages *—Plus extras §—Non-voting K—Ex-div. 12/18 P—Ex-div. 12/11 H—Ex-div. 10/24

The Stockholder

and Income

est importance is to take the form of a standard, general purpose tractor, which will be retailed for slightly under $700 and on the same basis as other agricultural machinery companies are accustomed to make their sales. While Sears has always carried a line of small agricultural implements, it is believed that with the new tractor the company will naturally add further equipment. It is of course yet too early to estimate what effect the new development will have upon earnings. It is, however, interesting as showing yet another step in the growth of the "dean" of mail order houses.

* * *

Railroads and Wages

That all railroad wages eventually will be cut appears more certain every day. First of all white-collar workers and executives had their pay reduced. This was followed by isolated instances in which union employees of certain of the less important roads voluntarily accepted reductions. Now we have 15,000 shop employees of the Southern Pacific accepting a 10% reduction effective immediately. It all points to one thing—the universal acceptance, whether forced or not, of a lower rate of pay. When it has taken place, it will mean an additional income to the roads of some $200,000,000 annually. The railroads have outstanding roughly $12,000,000,000 in funded debt so that the saving will be considerably less than 2% on this amount. An investor will see then that although the universal reduction of wages and salaries will undoubtedly help the roads it will not result in any phenomenal prosperity. It would take a material increase in traffic to do that.

* * *

Coca-Cola

There will not be many companies showing better earnings for 1931 than were shown for 1930, but among the select minority Coca-Cola is almost certain to be found. The company's earnings for the past year are estimated to be not far from $12 a share, which will make an excellent comparison with the $11.15 shown for the previous twelve months. The market bears out this optimistic prediction, for Coca-Cola common has been little affected by those factors which have caused a large section of the list to make new lows every day. While it was never thought that the company's business would decline very much owing to the depression, it is doubtful whether as favorable showing could have been anticipated but for the unseasonably warm autumn enjoyed by many sections of the country.

* * *

Laws

Now that economics has taken a second place to politics, an investor might well pause and consider what some of the prospective and recently enacted laws—especially tax laws—will mean to him. It should be obvious to anyone that a good law in the first place must be enforceable. From this it follows that the more profits there are in breaking a law the more difficult it will be

(*Please turn to page* 374)

Magazine of Wall Street's Adjustable Stock Rating Booklet

December 31, 1931

EARNINGS				PRICE RANGE				Recent Split-up or Stk. Div.	Complete Analysis See Page	Comment	
Annual		Interim		1930		1931					
1929	1930	1930	1931	High	Low	High	Low				
12.57	9.22	8.13*se*9	7.00*se*9	274¼	170⅜	201¾	112⅛		336	Strong financially but net barely covers div.	1
†11.53C	8.56C			130⅞	99¼	132¾	64	2:1 7/28/30	354	Sales off but 1931 net exceeds that of 1929	2
8.29	2.07			81½	25	43¼	9¼		354	At 40% of capacity; low profits at present	3
22.69	12.86			242½	168	203⅜	79¼		341	1931 net may exceed $7 a share; strong finan.	4
6.03	5.52	4.66*se*9	3.63*se*9	70⅛	46¾	62	37½	5% 12/12/29	340	Full year 1931 net may approach $5 a share	5
5.43	4.44	3.77*oc*10	3.17*oc*10	51⅜	32⅜	46½	23⅜	4:1 7/30	355	Net operating income for 1st10 mos. off 16%	6
29.06	21.97	20.08*nv*11	13.39*nv*11	265	131½	217	105⅝		337	Outstanding road in dividend covered	7
6.99	4.52	3.88*se*9	3.34*se*9	145¼	80½	107	50¾		355	Strong and well diversified chemical company	8
11.04	11.53	8.58*se*9	8.40*se*9	197⅛	131	179¾	92	5% 1/32	339	1931 net may equal $10.50 a share	9
3.03	2.07	1.04*je*6	0.82*je*6	77⅜	17½	38¾	7⅛	3:1 5/29	355	Joins West. Un. in telegraph printer service	10
0.29	1.48			28⅛	8¾	21⅞	10		354	Increased net results in dividend resumption	11
6.86*ja*	6.70*ja*	6.70*ja*	4.81*ja*	159¼	81⅝	106¼	50	5% 2/31	362	1931 earnings estimated to cover div. fully	12
2.60	*d*0.22	*d*0.85*se*9	*d*0.76*se*9	49⅞	15⅛	29¼	6⅝		356	First 9 months sales declined 18%	13
†4.66	2.88	1.14*je*6	1.46*je*6	80	27⅝	44¾	26¾		337	Volume of sales well maintained	14
*d*1.55	*d*0.91	*d*1.34*se*	*d*5.52*se*	12	2½	5½	¾		356	Downward earnings trend adverse factor	15
2.97*je*	3.38*je*	3.38*je*	3.37*je*	78⅛	52⅝	71¼	36⅜		340	Expanding rapidly; sales well sustained	16
3.92	3.96			123¾	65	96½	49⅛		339	Net for year ended Oct. 31 up 5.2%	17
3.94	3.12	2.22*se*9	1.54*se*9	106⅜	52½	72½	27⅛		338	Strongly intrenched; net off; outlook good	18
6.06	6.09			63½	26⅜	46⅜	3¾	3:1 4/30	364	Earnings off; recovery remote; large assets froz.	19
3.66	3.56			72⅜	51½	72¾	35		356	Sales steady; expects to add 40 units in '32	20

†—On old capitalization C—Combined com. and 'B' *d*—Deficit *ja*—Year ended Jan. 31 *je*—Year ended June 30 *se*—Year ended Sept. 30 *je6*—6 mos. ended June 30 *se9*—9 mos. ended Sept. 30 *oc10*—10 mos. ended Oct. 31

READERS' FORUM

The Readers' Forum belongs to the readers of THE MAGAZINE OF WALL STREET *and is intended exclusively to serve them in the discussion of problems of general investment interest. This department welcomes and invites contributions from its readers without imposing rigid restrictions as to their choice of subject matter. Stories of personal experience with, or personal opinion upon, investment problems, are particularly appropriate since they often are of interest to many. The services of this department also are available for answering investment questions of general interest excluding inquiries regarding the position or prospects of individual securities.*

Personal Investment Talk No. 17

How Leverage Affects Profit Prospects

Little Understood Factor Which Accounts For Wide Movement in Some Stocks

By JOHN DURAND

ALTHOUGH there is nothing new about the principle of leverage, the idea of applying it to common stocks sprang into popularity about a year ago, aided, so the report goes, by the enterprising salesmanager of a certain investment trust which was sadly in need of talking points to market its shares during the greatest bear market in history.

The lever is among the most ancient of mechanical devices. Through its aid the comparatively small pressure of a man's hand applied to the long handle of an automobile jack can lift a heavy car off the ground when a tire has to be changed. During this operation the hand moves over a considerable arc—say two feet—while the car rises only a few inches. In other words, a big movement at one end of the lever produces a small motion at the other end. As applied to common stocks, however, one starts at the short end of the lever; so that leverage, in the sense we are now considering, means that a small change in total assets, or earnings, produces a large change in the value of junior securities and, inferentially, in their market prices.

Stocks Affected By Leverage

Not all common stocks are affected by the principle of leverage. It all depends upon the capital set-up, and particularly upon the volume of senior securities ahead of the common. There is no leverage if the entire capitalization consists of common stock; but leverage on the common stock is tremendous when the company is burdened with relatively large issues of bonds and/or preferred stocks. The two concrete examples presented herewith will make this and several related principles much clearer to the reader.

In the first of these examples the effect of leverage upon the liquidating value of a common stock is illustrated by contrasting two listed investment trusts. The principle of leverage does not apply to Fourth National Investors, since there is neither preferred stock nor bonds in the capital set-up. For this reason the shrinkage during 1930 in total liquidating value of the common was neither more nor less than the shrinkage in net assets; and since no change took place during the year in number of shares outstanding, the per-share liquidating value shrank in the same proportion. All three declined 20%.

Position of Senior Obligations

But the effect of leverage shows up quite clearly when we come to examine the situation in American and European Securities, which has a considerable amount of bonds and preferred stock that would have to be paid off in event of liquidation, before the common stockholders received what was left. Thus we find, after deducting from net assets the liquidating value of senior securities, that a shrinkage of 39% in the liquidating value of the common stock, resulted from a decline of only 25% in the market value of net assets. The percentage shrinkage in per-share liquidating value was likewise just 39%; since no change took place during the year in the number of shares outstanding.

When computing the liquidating value of common stock, all reserves and accruals which would have to be settled in cash in the event of dissolution of the company should

be deducted from total assets, as shown on the balance sheet, in order to arrive at the amount of net assets applicable to the various classes of securities. And then one should be careful to choose the correct method of valuing assets and liabilities. Assets should be valued at market prices—not at cost. Bonds and preferred stocks should be valued at their liquidating values—not at book values, nor redemption values. Thus, in the instance of American and European Securities, bonds with a book value of $4,000,000 would receive a premium of 3% in the event of early liquidation, and so are entered in our computation at a liquidating value of $4,120,000. The 50,000 shares of preferred stock, on the other hand, have a liquidating value of $100 per share, and so are entered at $5,000,000, which happens also to be their book value.

The magnitude of leverage effect upon the liquidating value of a common stock varies considerably with the amount of shrinkage in net assets and with the relative volume of senior securities. In the instance of American & European Securities, for example, if net assets had shrunk twice as much as they actually did in 1930 then the common stock's liquidating value would have fallen 77%. And again, if the liquidating value of bonds and preferred stocks had been twice the actual amounts shown, a 25% drop in net assets would have caused a shrinkage of 93% in the common stock's liquidating value.

Before leaving this phase of our subject, it may be mentioned that the managers of the two investment trusts here cited are to be congratulated for holding their shrinkage in net assets down to 20% and 25% respectively during the trying year of 1930. THE MAGAZINE OF WALL STREET'S Common Stock Price Index (Combined Average) declined 47% during 1930, and since the movements of this highly representative price index form an excellent standard by which to judge the performance of investment trusts, it may be said that the portfolios of these two trusts behaved about twice as well as the general list during the severe bear market of that year. The two trusts in question were not selected for this reason, however, but merely on account of the fact that, when paired, they seemed best fitted to bring out the points we wished to illustrate.

For reasons which will be mentioned presently, the principle of leverage has its most practical use in connection with the liquidating value of investment trust common stocks; and yet the idea is also applicable to per-share earnings of industrial common stocks. This is illustrated in Example II; where Libbey-Owens-Ford is seen to be without leverage, while the effect of this factor stands out distinctly in the instance of Remington Rand.

It will be observed that deduction of fixed charges and preferred dividends caused a drop of 97% in the per-share earnings of Remington Rand common during the year, 1930, although profits before charges had fallen off only 64%. Earnings applicable to the common stock of Libbey-Owens-Ford, on the other hand, showed the same decrease as total profits; since there is no leverage here. It will be noted, however, that per-share earnings in this instance registered a larger percentage loss than aggregate earnings applicable to the common, due to the fact that additional shares were issued during the year in exchange for stock of a subsidiary whose earnings fell off more than those of the parent company. Thus we find that a disproportionate change in per-share earnings can arise from causes other than leverage. Stock dividends and split-ups have the same effect.

When computing the effects of earnings leverage, care should be taken to deduct all prior charges from profits applicable to senior securities. These charges consist not only of interest and preferred dividend disbursements, but also of sinking fund and redemption allowance, where such are necessitated by the indenture under which senior securities have been issued. All of these prior charges, taken together, are sometimes referred to as "Service Charges," or just "Service."

Having analyzed the accompanying concrete examples, we are now in position to complete the analogy between financial and mechanical leverage. A mechanical lever rests upon a fixed fulcrum, which compels some points on the lever to move further than other points. The fixed fulcrum in financial leverage consists either of fixed charges or else senior securities of fixed valuation. If service charges could be varied in proportion to earnings, there would be no earnings leverage; and if the liquidating value of senior securities could be proportioned to the market value of a company's assets, there would be no assets leverage. Leverage arises from the circumstance that fixed obligations have to be met out of fluctuating resources. Common stockholders profit or lose inordinately from

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Example I—Assets Leverage

(Figures in thousands)

End of year	No Leverage 4th Nat. Investors 1929	1930	% Decr.	Leverage Amer. & European Secs. 1929	1930	% Decr.
Net assets (at market)	23,402	18,680	20	26,088	19,468	25
Liquidating value of funded debt	none	none	..	4,120	4,120	..
Liquidating value of preferred stock	none	none	..	5,000	5,000	..
Liquidating value of common stock	23,402	18,680	20	16,968	10,348	39
Shares common stock outstanding	500	500	..	355	355	..
Per sh. liquidating value of com. stk.	47	37	20	48	29	39
Com. divs. paid (calendar year)	none	none	..	none	none	..
Price of common stock	33½	21½	36	35	16½	53

Example II—Earnings Leverage

(Figures in thousands)

	No Leverage Libby-Owens-Ford 1929	1930	% Decr.	Leverage Remington Rand 1929	1930	% Decr.
Profit applicable to fixed charges	3,317	1,216	63	7,357	2,633	64
Fixed charges	none	none	..	1,317	1,222	..
Preferred dividends	none	none	..	1,352	1,273	..
Profit applicable to common stock	3,317	1,216	63	4,688	138	97
Shares common stock outstanding	1,772	2,326	..	1,335	1,299 nt	..
Common earned per share	1.87	0.52	72	3.51	0.11	97
Common divs. paid (calendar year)	0.75 eq	0.75	..	none	1.30	..
Price of common stock (end of year)	19½	13	33	26⅛	15⅛	42

eq—Equivalent on shs. outstanding end of yr. nt—Not including treasury stk.

As an Editor Sees It

Must Our Living Standards Be Sacrificed?—Government Wages—The Banking Problem

Editor, Readers' Forum:

The universal inclusion advocated in your article, "World Factors," means the permanent sacrifice of the standards of living and consuming power of the United States, and therefore an insuperable barrier to our economic recovery except on the basis of a pauperized population and the development of a proletariat which will threaten and probably destroy our institutions.

Europe has introduced mass machine production, without that attendant increase of mass consuming power in the absence of which this vastly increased output becomes the Frankenstein monster which the Marxians have predicted, producing a glut of goods, poverty and unemployment.

European wages, and therefore standards of living and consuming power have not increased, but decreased since before the World War, and are still being decreased, as evidenced by the action of England in reducing wages and mass consuming power 25 per cent by going off the pound, and of Germany in issuing a decree cutting wages 10 per cent; recently Italy reduced wages 15 per cent.

This situation is brought about by the fact that the European continent is a crazy quilt of nationalities, none economically self-contained, all therefore dependent on foreign commerce, in which the most effective weapon is cheapness, best attained by cheapening labor. Through this competition, wages, living standards and consuming power are constantly forced lower, creating an impossible economic condition. Under such conditions the machine becomes a destroyer of civilization.

There can be no improvement until economic union of western Europe is achieved, creating a large self-contained economic unit, protected by tariffs against the cheaper labor markets of the world, and therefore able within itself to raise wages and living standards, shorten hours, etc., so that output may be consumed.

Because of the existing system of basing all commerce on foreign rather than domestic trade, 500 million Europeans have the consuming power of 120 million Americans. Their competition became so bitter that the struggle for markets caused the World War, and will cause other wars, with France now reaching out for world control for economic reasons.

The United States, chiefly because of greater labor scarcity, and because not prevented from doing so by overwhelming foreign competition based on cheaper labor costs and not staking its prosperity on foreign trade, has saved itself, or did save itself up to 1929, from this condition only because wages, and therefore living standards and consuming power have been stepped up

As the Foreign Press Sees Us

in some proportion to output of machine and mass production. In other words, it adopted the only means by which machine and mass production can be kept from becoming destructive. It doubled wages while European wages stood still or sank.

As early as 1926 the growing gap between American and foreign wages began to make our protective tariff ineffective, and despite the impression to the contrary which propaganda has created, hundreds of factories began to close or slow down under the impact of this competition, so that by the winter of 1928 we had a large army of the unemployed.

But during the period beginning with the World War American financial and industrial investors had accumulated so large a stake in Europe, that together with the western populists who wage a holy war on American manufacturing industry on the ground that the destruction of American industrial enterprise and employment will help the farmer, when the tariff was adjusted in 1930, they were able to prevent fulfillment, after a long struggle, of the prescription of either party that a tariff should be levied on competitive articles equal to the difference in labor costs at home and abroad.

Today a million men are out of work in this country in the oil, lumber and glass and pottery industries alone because of inability to meet prices fixed by lower cost foreign production. This same condition exists in many other industries despite all claims to the contrary. I could cite many specific instances to prove this. You need but take a turn through the stores of New York City to know to what an extent there has been a displacement of American by foreign production.

Thus we have destroyed enormous consuming power in this country and will continue to do this in increasing degree as European wages sink.

In destroying our own employment and consuming power by this process of "inclusiveness" we hurt, not help our foreign trade. For by slowing or shutting down our industries we cut down the American demand for foreign articles of luxury, raw materials, tropical products and other commodities not produced here and curtailed our immense expenditures for foreign travel.

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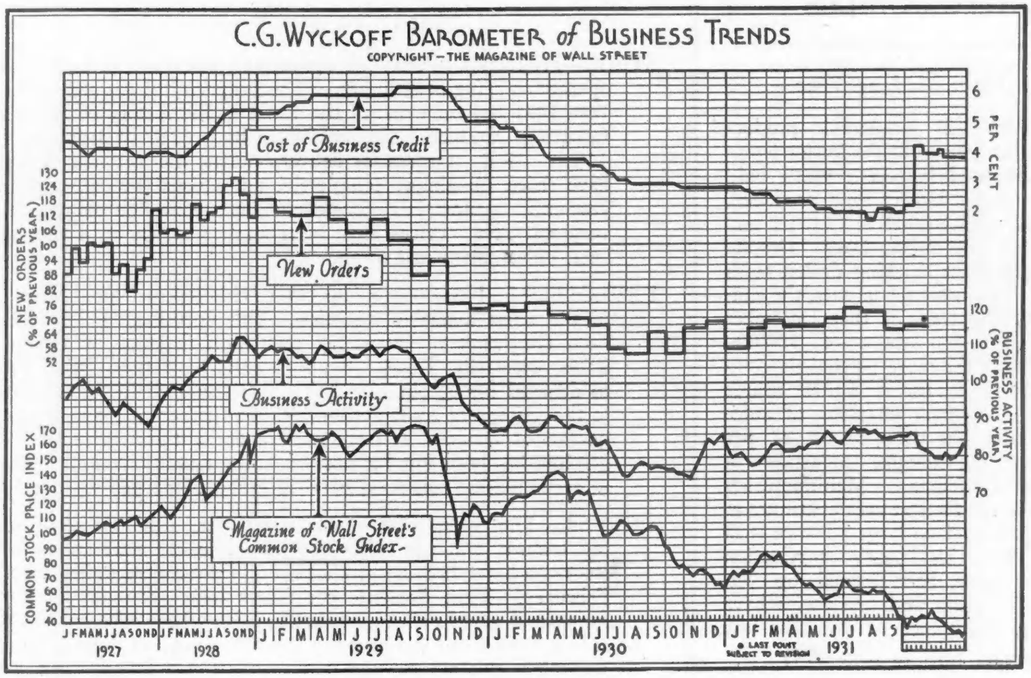
Taking the Pulse of Business

Trend Is Toward Moderate Improvement



WHOLESALE trade, along with production in basic industries, is always slack during the weeks immediately preceding and after New Year's so that minor changes in activity during the holiday season, from one year to another, are often responsible for fluctuations in the business indexes which are out of all proportion to their actual significance. The situation is further obscured by extensive window dressing operations which are customary at this time. For these reasons it is usually prudent to suspend judgment as to prospects for the new year until January is well advanced. And yet, with due allowance for all such confusing factors, it may be said that the Barometer, viewed as a whole, holds out at the present time a moderate degree of encouragement.

In fact all four indexes are pointing now to gradually clearing skies. It seems to be especially significant that the Cost of Business Credit holds steady at a normal level in the face of extensive year-end shifting of funds. Moreover, New Orders to be disclosed by the next point on that graph, when reports are all in, hold promise of at least a moderate increase; while the Business Activity index appears to have turned definitely upward again. What this means, of course, is not that business conditions in the more important industries are substantially improving at the moment, but rather that the usual holiday drop in activity is less severe now than a year ago; which offers ground for hope that the late winter recovery may be somewhat more than seasonal. The expectation is further strengthened by the circumstance that production in many lines has for a number of weeks now been depressed below the level of even current consumption, which is obviously so far beneath normal that returning confidence would soon release a surprisingly large pent up demand for goods.

The trend of security prices as the year closes tends to confirm the moderately encouraging business prospect for early 1932. When the depressing force of tax selling spent itself, recuperative powers were manifest in stocks while the heartening firmness in the bond market conveys a picture of sounder underlying conditions in the investment field. Those closest to individual industries apparently envisage enough betterment in their fields to warrant accumulation of securities.

Business Awaits the Spring Upturn

AUTOMOBILES

Industry Marking Time

NOVEMBER automobile production slumped to the lowest figure witnessed in recent years, only 65,000 vehicles having been produced, compared with 82,000 in October and 142,000 in November, 1930. Despite the necessity for stocking dealers with samples of the new model cars, the consensus of the trade is that December output will fall short of 100,000 vehicles and the more pessimistic commentators look for a figure nearer 70,000. Consumer financing of automobile sales has dropped off 25 per cent from the amount undertaken a year ago November. Manufacturing activity in the Detroit area continues at a slow pace and no large advance steel orders for this year's production schedules have been signed up yet. Orders for parts and accessories have not been maintained at even the low

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COMMODITIES*

(See footnote for Grades and Units of Measure)

	1931 High	1931 Low	Last*
Steel (1)	$0.01¾	$0.01⅝	$0.01⅝
Steel (2)	0.01¾	0.01½	0.01½
Pig Iron (3).....	17.00	15.00	15.25
Copper (4)	0.10½	0.06¼	0.07¼
Lead (5)	0.05½	0.03¾	0.03¾
Petroleum (6) ..	0.81	0.14	0.69
Coal (7)	1.60	1.40	1.45
Cotton (8)	0.11	0.05⅜	0.06⅜
Wheat (9)	0.90	0.36½	0.68
Corn (10)	0.68½	0.34½	0.38½
Hogs (11)	25.00	8.00	10.25
Steers (12)	17.00	9.00	12.00
Coffee (13)	0.10	0.07⅝	0.08⅞
Rubber (14) ...	0.08⅝	0.04¼	0.04⅞
Wool (15)	0.72	0.57	0.59
Sugar (16)	0.03½	0.03⅛	0.03¼
Paper (17)	62.00	14.22	53.00
Lumber (18) ...	17.67	13.59	14.22

* Jan. 4, 1932.

(1) Sheets, Pittsburgh, cents per lb. (2) Bars, Pittsburgh, cents per lb. (3) Basic Valley, $ per ton. (4) Electrolytic, cents per lb. (5) Pig (N. Y.) c. per lb. (6) Kan., Okla., 32-32.9 deg. $ per bbl. (7) Pitts., steam mine run, $ per ton. (8) Middling (Galv.), cents per lb. (9) No. 2, Hard, Winter (Kan. City), $ per bu. (10) No. 3 Yellow (Chic.), $ per bu. (11) Fresh loins, 10-12 lb. (N. Y.) $ per 100 lb. (12) 550-700 lb. (N. Y.) $ per lb. (13) Santos, No. 4 (N. Y.) c. per lb. (14) Smoked Sheets (N. Y.) cents per lb. (15) Fine staple, clean (Boston), cents per lb. (16) Cuban, raw 96 deg. deliv. (N. Y.), cents per lb. (17) News Rolls (N. Y.), $ per ton. (18) Yellow pine boards, f. o. b. per M.

THE TREND IN MAJOR INDUSTRIES

STEEL—Production of steel has declined to a new low level, last week's operations being at only 18% of the capacity of the industry. The year 1931 has been one of the worst in the history of steel manufacturing, production amounting to only 63% of last year's and 46% of 1929. Orders for delivery during the first half of January have dried up almost completely, an unusual occurrence for the year-end. Automobile, construction and pipe line orders are at a very low ebb. Prices have been marked down on sheets, strips, bars, billets, slabs and scrap.

PETROLEUM—None of the important fields reported production gains in the latest available statistics. This encouraging condition has been the result of increasing regulation firmness by the various states, especially Texas. Runs to stills have been heavy relative to demand for gasoline, and should be reduced in the near future in the opinion of trade authorities, lest further recession in gasoline quotations results. A large part of the autumn price advance in gasoline has been lost by heavy refining operations, which resulted in accumulating stocks on hand in excess of normal seasonal needs.

COPPER—The recent curtailment agreement, although an encouraging feature, will not materially reduce in the near future copper stocks on hand, because production may not contract effectively until February. Most domestic consumers have arranged for supplies for several months ahead, advantage having been taken of low prices ruling throughout the past two months. Foreign demand has been very light this month, and recovery in this field appears indefinite at present. Quotations remain unchanged at 7¼ cents a pound for domestic delivery and 7½ cents for c. i. f. delivery at European base ports.

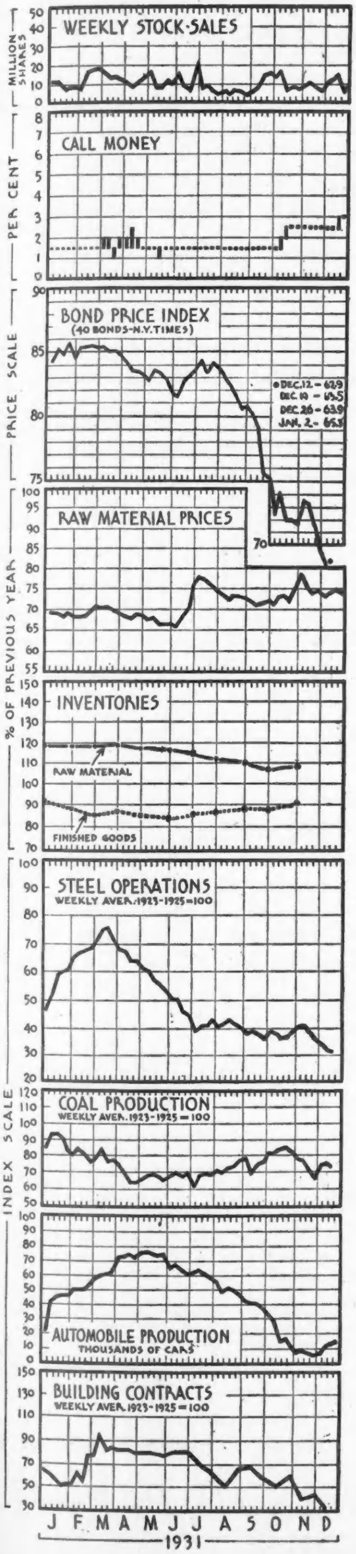
AGRICULTURE—The combined index of marketing volume of agricultural products, computed by the U. S. Dept. of Commerce, indicates that marketings have dropped considerably below those of a year ago. Especially severe recessions in the movement to primary markets occurred for all grains, cotton, fruit and vegetables. Some gains, however, were registered in marketing of animal and dairy products. The heavy holding movement continues on the part of grain and cotton producers, accentuated by the frozen loans made on these commodities by interior banks.

CHEMICALS—Activity in the chemical industry as a whole has receded from levels of a year ago. Employment in November was 15% below that of the same month in 1930, and 30% under that of the peak month of October, 1929. Stocks on hand of chemicals in November were higher than at any time throughout the past several years. The chemical industry's profits in the fourth quarter are believed to have receded considerably below those of the last quarter of 1930, except for a few well situated companies.

AVIATION—The demand for airplanes has been chiefly maintained by orders from the army and navy. The latter's aircraft building program expired last June, while that of the former will be completed next June. With this support withdrawn from the industry and in consideration of the clearly defined prospect that civilian sales are likely to continue unprofitably low, the near-term outlook for the construction companies in the field cannot be considered particularly bright.

The Magazine of Wall Street's Indicators

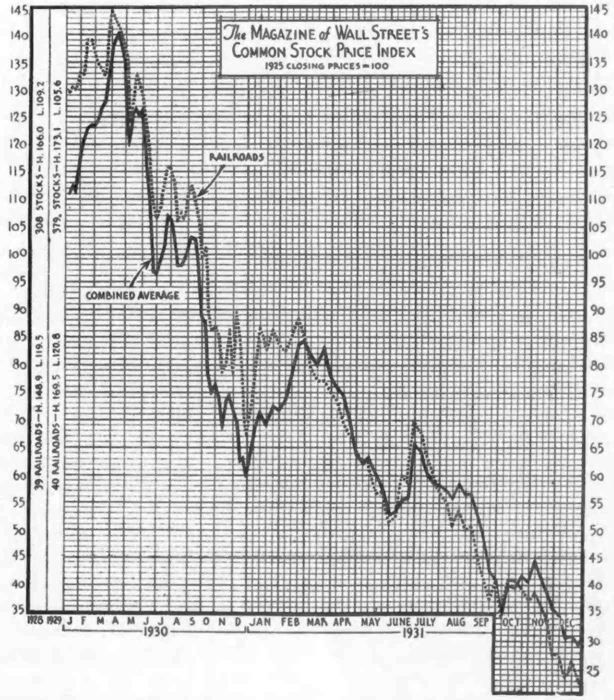
Business Indexes



Common Stock Price Index

1930 Indexes Close	1930 Indexes High	1930 Indexes Low	Number of Issues	Group	1931 Indexes High	1931 Indexes Low	Dec. 26	Dec. 31
62.2	140.7	59.9	405	COMBINED AVERAGE	84.4	29.2	29.2*	30.0
112.0	405.5	105.7	5	Agricultural Implements	142.4	33.0	33.0*	34.8
88.5	272.0	85.6	8	Amusement	121.2	19.7	19.7*	21.2
47.8	118.1	46.2	22	Automobile Accessories	76.9	23.9	24.1	23.9*
25.5	78.4	24.5	20	Automobiles	37.0	12.1	12.1*	13.1
39.9	153.1	35.4	4	Aviation (1927 Cl.—100)	74.2	22.3	22.3*	31.7
23.8	74.2	23.8	3	Baking (1926 Cl.—100)	38.4	8.3	8.3*	9.7
185.5	248.1	179.6	2	Biscuit	212.8	112.5	113.3	112.5*
128.6	262.7	123.5	5	Business Machines	162.2	48.1	48.1*	49.5
157.0	226.0	151.8	2	Cans	188.5	96.5	99.3	99.3
126.0	248.5	124.3	8	Chemicals & Dyes	157.8	76.2	78.4	81.6
35.4	107.9	34.4	3	Coal	71.8	20.8	20.8*	21.4
48.3	131.8	46.2	22	Construction & Bldg. Mat.	73.7	18.9	18.9*	19.5
70.4	211.7	67.0	12	Copper	92.4	30.1	33.2	30.2
83.0	125.1	80.7	2	Dairy Products	98.0	45.8	46.8	47.2
21.5	51.6	20.4	9	Department Stores	30.2	9.6	9.6*	10.1
83.0	142.0	79.4	8	Drugs & Toilet Articles	120.4	52.0	52.0*	53.1
115.8	239.1	114.9	8	Electric Apparatus	149.3	44.7	44.7*	46.9
14.8	54.4	13.7	4	Fertilizers	21.5	4.3	4.3*	4.6
77.6	148.4	68.5	2	Finance Companies	91.3	40.8	43.3	41.7
64.4	93.5	62.1	7	Food Brands	80.1	43.7	44.4	45.3
50.3	124.6	50.0	4	Food Stores	83.0	44.4	44.4*	45.0
31.6	119.2	30.1	4	Furniture & Floor Covering	51.7	21.7	21.7*	21.8
29.9	92.5	28.6	7	Household Equipment	45.5	16.6	16.6*	17.0
61.0	184.9	58.9	10	Investment Trusts	89.5	17.1	17.1*	19.1
52.3	170.0	51.5	3	Mail Order	96.3	26.1	26.3	26.1*
52.4	142.5	50.9	39	Petroleum & Natural Gas	69.2	22.3	22.3*	23.4
37.2	175.2	36.8	8	Phono. & Radio (1927—100)	68.8	12.7	12.7*	13.0
150.4	305.0	141.1	20	Public Utilities	196.8	77.0	77.0*	78.1
57.8	115.4	55.5	10	Railroad Equipment	73.1	20.6	21.5	21.2
69.8	144.5	67.1	33	Railroads	88.4	22.5	22.7	22.5*
81.9	153.1	78.9	3	Restaurants	100.7	41.8	42.6	41.8*
28.9	88.8	28.9	5	Shipping	38.0	8.9	9.2	8.9*
160.4	246.5	150.8	2	Soft Drinks (1926—100)	183.4	82.0	83.6	82.0*
63.5	146.5	61.4	13	Steel & Iron	92.3	25.3	25.3*	25.8
12.9	45.1	12.2	6	Sugar	18.9	7.3	7.4	7.3*
170.3	268.7	163.0	2	Sulphur	218.0	84.2	88.2	89.5
97.4	177.2	92.6	3	Telephone & Telegraph	132.4	44.5	44.6	44.5*
23.7	70.5	21.1	6	Textiles	46.0	16.1	16.1*	18.2
10.9	39.0	10.9	7	Tires & Rubber	15.8	4.4	4.7	4.9
59.3	107.3	57.5	9	Tobacco	78.6	47.0	47.0	48.3
67.2	103.5	63.2	5	Traction	86.1	26.1	27.4	26.1*
68.5	88.7	66.5	2	Variety Stores	82.0	44.5	44.5*	44.9

* New low record since 1928.



(An unweighted index of weekly closing prices; compensated for stock dividends, rights, and splitups; and covering about 90% of the total transactions in all Common Stocks listed on the New York Stock Exchange.)

PERSONAL SERVICE SECTION

Answers to Inquiries

Our Personal Service Department is prepared to offer advice on any security in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Be brief.
2. Confine your inquiries to *three securities only.*
3. Write name and address plainly.

Special rates upon request to those requiring additional service.

AMERICAN TOBACCO "B"

I have 200 shares of American Tobacco "B" my average cost of which is 85. In view of the strong possibilities of a new sales tax on cigarettes and its probable effect on sales of cigarettes, do you believe it advisable to continue holding this stock or would sell on any good rally? I would appreciate your opinion.—L. A. F., Minneapolis, Minn.

American Tobacco Co., manufacturing "Lucky Strike," "Sweet Caporal," "Pall Mall," and "Lord Salisbury" cigarettes and "Bull Durham," "Blue Boar," "Tuxedo" and "Half-and-Half" smoking tobaccos, occupies a dominant position in the industry. A further important influence is exercised through a controlling interest in American Cigar Co., manufacturing "Cremo" cigars. American Tobacco Co.'s most sensational growth has come since 1925 when changes in the management brought new policies into effect. In the six years ended June, 1931, internal revenue collections on cigarettes gained 28.6% whereas the company's earnings increased 94.7% from 1925 through 1930. Although cigarette tax collections were off nominally in the last Government fiscal year, "Lucky Strike" sales have been running ahead of those for 1930, and in view of the increase in cigarette prices posted last spring, it is reasonable to assume that earnings for the 1931 year will compare favorably with the $8.56 a share shown in 1930. If the proposed advance in the Federal tax on cigarettes goes into effect, it may be necessary for the manufacturers to absorb the increase themselves and in turn cut wages and operating costs, as a retail price rise might seriously cut consumption. American Tobacco, however, will be in excellent condition to meet such an adverse turn if it develops. The company is reported to have cash and call loans in excess of $32,000,000, a new high record, and comparing with $24,101,551 at the end of 1930. Its earning power should be stabilized by increasing returns from its important British subsidiary, A. Wix & Sons, and from the American Cigar Co. In the light of this situation, we look upon sale of your holdings at current levels as involving an unwarranted sacrifice, and counsel against such action.

P. LORILLARD CO.

I have 115 shares of P. Lorillard Co. purchased at 25. With this stock on a dividend basis I expected to see it do much better marketwise. In view of the decline in cigarette sales in general, do you believe it is advisable to continue holding or would you switch to some other stock? I will appreciate an early reply.—H. A. S., San Francisco, Calif.

Ranking fourth largest in the tobacco industry, P. Lorillard & Co. produces "Old Gold" cigarettes, "Rocky Ford" 5-cent cigars, "Muriel" higher priced cigars, "Beechnut Chewing Tobacco" and "Union Leader" smoking tobacco. In the past few years, Lorillard has been concentrating its efforts on the "Old Gold" cigarettes. Expenses of the promotional campaign had a temporarily adverse affect on earnings, but in 1930 net income started upward again, amounting to $1.47 a share against 29 cents a share in 1929. The company does not report its sales, but is believed to have sustained a slight contraction last year in view of general business conditions. However, full 1931 earnings should compare favorably with those of the preceding year, due to decreased advertising expenditures and higher prices for cigarettes. The company is in a very strong inventory and cash position, with cash on hand estimated at more than $11,000,000 after retirement of the 5½% debenture bonds. The proposed increases in the Government tax on cigarettes would be an adverse development, but there is little doubt that Lorillard is now strong enough to hold its place in the industry. The recently initiated annual dividend rate of $1.20 a share appears to be well secured by earnings, but it cannot be considered seasoned for some time to come. We look upon the shares as offering attractive long term speculative prospects and feel that they should be retained rather than sacrificed at a loss.

ANACONDA COPPER MINING CO.

Do you think there is any hope in the copper situation? I have 125 shares of Anaconda Copper Mining Co. purchased at about 50 in 1930. I have held on, always thinking it couldn't go lower, but it did, and now I was about to sell when the price of copper was advanced. A friend advised me to write to you as he has found your advice to be unbiased and most satisfactory. I will appreciate your opinion as to the true outlook for this company. I will be guided by your opinion as to whether to hold or take my loss and invest elsewhere. —R. B. D., Albany, N. Y.

After months of negotiations between international copper producers,

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an agreement has been reached whereby production activities of those enterprises accounting for approximately 90% of the world's supply of copper, will be curtailed to 26½% of capacity. It is hoped through this agreement that the present over-supply of the metal, amounting to some 10,750,000,000 pounds above ground will be materially reduced. Certainly, this constructive measure is a step in the right direction. However, demand for copper is likely to remain materially restricted for some time to come, with the result that recovery of the industry generally will of necessity be slow. Until the supply is brought more in line with demand copper sales will be made at prices that afford only nominal profits. In the light of the foregoing, little in the way of earnings improvement can be reasonably anticipated for Anaconda Copper Mining Co. during the early future. However, we maintain confidence in the ability of the enterprise to weather the present period successfully. Anaconda ranks as one of the three largest enterprises engaged in the copper industry and is in a position to produce the metal at a cost of under 7 cents a pound. Thus, the company should be among the first to favorably reflect any improvement in the trend in copper prices. The 1931 annual statement will make an unfavorable comparison with last year from the standpoint of earnings and financial condition, but a gradual reduction of inventories, as well as operating economies recently effected, should strengthen the company's position during the current year. Inasmuch as you have maintained your long position through what appears to be the worst of the situation, we are inclined to the belief that further retention of your holdings, as opposed to a sacrifice sale is the better course to follow.

INTERNATIONAL TEL. & TEL. CO.

Will you kindly advise me concerning the outlook for International Telephone & Telegraph Co.? It seems to me that with such a large percentage of earnings coming from foreign countries the large discount in foreign exchange can't help but effect earnings. Do you think it advisable to continue holding 100 shares of International Tel. & Tel. purchased at 26?—A. J. G., Schenectady, N. Y.

International Tel. & Tel. Co., operating communication services in South America, Europe, and Asia, has been severely affected by the world-wide economic unsettlement. In the three months ended September 30, last, the company reported net earnings of 18 cents a share, compared with 39 cents a share in the corresponding period of 1930, and bringing earnings for the first nine months of last year to $1.03 a share, compared with $1.55 in the first nine months of 1930. In reflection of this, the common stock was recently placed on a 60-cent annual dividend basis, compared with the $1 basis maintained earlier in the year, and the $2 annual rate previously paid. International Tel. & Tel.'s American subsidiary, Postal Telegraph & Cable Corp., has been getting an increased share of the domestic communication business, but increased expenses incident to this expansion resulted in a net loss of $1,247,675 for the first nine months of last year. Although earnings of International Tel. & Tel. will undoubtedly continue restricted as long as business conditions in the countries served remain dull, and foreign exchange is depressed, the company should be one of the first to benefit by evidences that definite stability has been achieved. International Tel. & Tel. requires no new financing in 1932, and the extent to which properties have been unified and operating expenses reduced in the past two years, promises a brisk upturn in net earnings as soon as gross shows any real improvement. We maintain a constructive attitude toward the long term possibilities of this company and feel that retention of shares purchased at higher levels is more advisable than a sacrifice of holdings at current quotations.

CHESAPEAKE & OHIO RY.

I am holding 135 shares of Chesapeake & Ohio Railway purchased at an average of $40 a share. I realize that the outlook for the rails in general is not so good and would appreciate your opinion as to whether I should continue holding. Have there been any new developments on the proposed merger? I was counting on that to make a real profit.—E. M. F., Dayton, Ohio.

Notwithstanding the declining tendency of earnings of Chesapeake & Ohio Railway Co. last year, the accomplishments of this road should be regarded as highly satisfactory when consideration is given to industrial conditions prevailing during the year. As a matter of fact, the decline in profits has been less pronounced than the average for Class 1 railroads. For the eleven months ended November 30, last, net income amounted to $25,719,269 equal, after dividend requirements on the preferred stock, to $3.36 a common share. This compared with net of $31,707,640, or $4.14 a share on a greater amount of stock outstanding for the corresponding interval of 1930, and current annual dividend of $2.60 a share. The above favorable showing, largely reflects the ability of the management to effect economies in operation of the road. Chesapeake & Ohio is essentially a soft coal carrier, this product accounting for approximately 80% of its total freight traffic. Including the lines of its affiliates, total mileage of the road is in excess of 3,000 miles, extending from the coal fields of West Virginia and eastern Kentucky, eastward to the Atlantic seaboard and westward to Chicago and the Middle West. Coal stocks now in the hands of consumers are not regarded as burdensome, and a general recovery of business, regardless of its dimension, should find immediate reflection in traffic improvement for the road. Moreover, should the negotiations between railroad executives and labor for a reduction of wages prove successful, earning power of the road will be further augmented during the current year. In view of ample dividend coverage, the strategic position enjoyed by the road and favorable long term prospects, we see no reason for disturbing your present holdings at this time. No recent consolidation developments have been reported, but a merger of this road under the Interstate Commerce Commission's plans no doubt will be ultimately consummated.

E. I. du PONT de NEMOURS & CO., INC.

I am holding 150 shares of E. I. du Pont de Nemours & Co., purchased around 110 in 1930. My broker tells me that this company is in an excellent position to show a real comeback and advises me to average around current levels. Will you kindly advise me as to the present earnings status and the prospects for any real increase in earnings. Do you believe there is a real basis for an advance? Do you advise buying now?—H. D. O., Boston, Mass.

Upon publication, the 1931 annual statement of E. I. du Pont de Nemours & Co., Inc., for the calendar year just closed is likely to prove somewhat of a contrast to the average statement of the "rank and file" company for the period. Based on a preliminary estimate of $1.05 a common share for the final quarter of the year, as compared with actual earnings of 64 cents a share for the last three months of 1930, net income for the calendar year of 1931 available to the common stock should approximate $4.40 a share on the average number of common shares outstanding during the year, as against $4.64 a share on a smaller average amount of common stock outstanding in 1930. This favorable showing may be attributed to extensive diversification of the company's operations and economies effected during the period. As the company is now constituted, its business may be divided into three main divisions, namely: manufacture of chemical products used as raw materials in other industries; production of a

wide range of miscellaneous chemical products such as rayon, pyroxylin and rubber coated fabrics, motion picture film, "Cellophane" and explosives; and last but of great importance, the investment division. The aggressiveness of the management may best be judged by the successful sales efforts in the marketing of "Cellophane." This wrapping tissue, almost unknown a year ago, has been very generously received by the more important tobacco companies, and is in common use in some department stores and laundries. This department of the company's operations promises to be an important revenue producer during ensuing years. The maintenance of the $3 annual dividend rate on the shares of General Motors during last year was also a stabilizing influence on earnings. We look upon Dupont common stock as an ideal medium for representation in the chemical industry. In relation to earnings and prospects over the longer term, the shares cannot be regarded as unreasonably valued at current prices, and should prove a profitable purchase over a reasonable period of time.

F. W. WOOLWORTH CO.

It seems to me that the favorable sales showing of Woolworth this year should put this company in a strong position to show good earnings for 1932. I am of the opinion that this company offers a real investment opportunity. Do you advise its purchase at this time?—S. J. S., Bangor, Me.

When consideration is given to the depressed business conditions prevailing generally throughout the country last year, the accomplishment of F. W. Woolworth Co. certainly should be regarded as gratifying. For the first eleven months of 1931, total sales volume amounted to $242,953,226, a decline of only 1.6% from that recorded in the corresponding interval of the preceding year. No interim earnings statements are published by the company, but there are several factors which indicate that profits for the year just closed will make a favorable comparison with those of $3.56 a share reported for the calendar year of 1930. Operating economies effected during the year, of course, is of first importance, although earnings no doubt were materially augmented by lower wholesale prices, and the addition of many items, which heretofore could not be purchased at a cost to allow profits at the company's maximum price standards. In spite of the many adversities confronted by the company, expansion of facilities has continued during the year, thus maintaining its leading position in the "5-and-10-cent" chain store field of the world. Expansion in foreign fields has been carried on at a satisfactory rate, and present indications are that much can be expected from this field during ensuing years. The recent recapitalization of F. W. Woolworth Co., Ltd. (British subsidiary), strengthened the company's already strong financial position, and enabled the distribution of an extra dividend of $2 a share in the final quarter of last year. At current prices, Woolworth common offers an attractive income return, as well as favorable opportunity to participate in any sustained strength of the stock market. The shares are suitable for inclusion in the average business man's portfolio, and moderate accumulations with a view toward long term profits are justified.

PENNSYLVANIA DIXIE CEMENT CORP.

What is the outlook for Pennsylvania Dixie Cement Corp.? It seems to me that current prices for the common stock just about discount building inactivity, but would like to have the benefit of your valued opinion before purchasing.—A. E. C., Gloversville, N. Y.

Pennsylvania Dixie Cement Corp. was organized in September, 1926, as the result of the consolidation of several seasoned cement companies, catering to the requirements of the Atlantic Coast states and the Southwest. Although the company occupies a prominent position in the cement industry, it has been severely handicapped by the almost ruinous competition in the territory served. With the exception of 1930, earnings record reveals a downward trend since 1927. This unfavorable record is largely in reflection of increasing inactivity in the building trade as well as the over-capacity of the cement industry. Operations of Pennsylvania Dixie Cement for the 12 months ended September 30, 1931, resulted in a deficit of $1,149,688 before preferred dividend requirements, as compared with a profit of $417,192 on the same basis for the preceding 12 months. Despite the unfavorable earnings showing made for the last fiscal year, a strong financial condition has been maintained. Total current assets as of September 30, 1931, amounted to $6,227,755, of which $2,785,842 consisted of cash alone, while current liabilities on the same date amounted to only $357,358. However, we see little evidence at this time to indicate any material improvement in demand for cement during 1932, and unless steps are taken by the major cement companies to alleviate the devastating price war, the current year is likely to prove as unsatisfactory, from the standpoint of profits, as last year. In the light of the foregoing, we regard Penn Dixie common as an unattractive speculation and feel that your present surplus funds could be diverted to other channels more advantageously.

MONTGOMERY WARD & CO.

Will you kindly give me your advice on Montgomery Ward & Co.? I am holding 135 shares purchased at much higher than present levels and am of the opinion that this stock offers a real opportunity to average, but would like you to clarify a few things before I buy. Does the 1931 deficit affect cash strength? Will the proposed increased postage rates seriously affect earnings? Do you advise its purchase?—L. M. M., Trenton, N. J.

Operating the second largest mail-order business in the country, in addition to a system of 541 chain stores and 16 department stores, Montgomery Ward & Co. has been seriously affected by the prolonged period of falling prices and curtailed agricultural buying power. In the first six months of this year, the company reported a net loss of $1,375,968 compared with a loss of $2,503,734 in the corresponding period of 1930. In the third quarter of this year, company reported a loss of $1,316,719. Final quarter may show profitable operations inasmuch as a net income is possible on a monthly sales volume of $19,000,000 and aggregate dollars sales for the period are believed to have been above this figure. In the full year, 1930, Montgomery Ward reported a net loss equal to 22 cents a share on the common stock, as compared with a net profit of $2.60 a share in 1929. The company's sales through the first eleven months of last year were running 17.8% below those for the corresponding period of 1930, but more favorable comparisons may be possible during the current year. Attention should be given to the fact that overhead adjustments and improved inventory position enables the company to conduct profitable operations on a materially lower volume of sales now, than a year ago. The company's balance sheet position is excellent, permitting it to take advantage of stabilized commodity prices. The major part of the company's postage bill is for parcel post and third class matter, on which no increase is proposed, so that a revision of the postal rates would not seriously affect the company. In view of the effective adjustments made to present conditions, and the extent to which the shares have discounted adverse factors, marketwise, we believe holdings may be retained as a long term speculation, and would not oppose moderate additional commitments for the purpose of averaging.

(Please turn to page 364)

New York Stock Exchange

RAILS

	1929 High	1929 Low	1930 High	1930 Low	1931 High	1931 Low	Last Sale 12/30/31	Div'd $ Per Share
A								
Atchison	298⅝	195⅛	242½	168	203⅜	79¼	85½	10
Do Pfd.	104⅞	99	108¾	100	108¼	75¼	77¼	5
Atlantic Coast Line	209½	161	175½	95¼	120	25	25⅝	4
B								
Baltimore & Ohio	145⅛	105	122⅜	55⅜	87⅞	14	15¼	..
Bangor & Aroostook	90⅜	55	84½	50⅛	66¾	18	18½	3½
Brooklyn-Manhattan Transit	81⅞	40	78⅜	55⅛	69⅜	31⅛	34⅜	4
Do Pfd.	92⅝	76½	98¾	83	94¼	63	67½	6
C								
Canadian Pacific	265⅞	185	52¼	35¼	45⅜	10¾	11½	1¼
Chesapeake & Ohio	279¾	160	51⅜	32⅜	46½	23⅜	28⅜	2½
C. M. & St. Paul & Pacific	44⅞	16	26⅜	4¼	8⅞	1½	1⅞	..
Do Pfd.	66⅝	28⅛	46¼	7¾	15⅜	2½	2½	..
Chicago & Northwestern	108½	75	89⅞	28½	45½	5	6	..
Chicago, Rock Is. & Pacific	143½	101	125⅛	45¼	65½	7⅞	8¾	..
D								
Delaware & Hudson	226	141½	181	130⅛	157¼	64	71	9
Delaware, Lack. & Western	169¾	120¼	153	69½	102	17¾	20¼	2
E								
Erie R. R.	93½	41⅛	63¾	22⅛	39¾	5	5½	..
Do 1st Pfd.	66¼	55½	67⅜	27	45½	6⅜	6½	..
Do 2nd Pfd.	63⅞	52	62½	26	40½	5	5	..
G								
Great Northern Pfd.	128¼	85¼	102	51	69¾	15⅝	16¾	2
H								
Hudson & Manhattan	58⅜	34½	53⅜	34⅞	44½	26¼	28	3½
I								
Illinois Central	153½	116	136¾	65¾	89	9⅛	10	..
Interborough Rapid Transit	58⅜	15	39½	20⅜	34	4⅝	5⅝	..
K								
Kansas City Southern	108⅞	60	85⅜	34	45	6⅞	8⅛	..
Do Pfd.	70⅛	63	70	53	64	15	18	4
L								
Lehigh Valley	102¼	65	84⅞	40	61	8	10¾	..
Louisville & Nashville	154¾	110	138½	84	111	20¼	22	4
M								
Mo., Kansas & Texas	65¾	27⅛	66⅝	14⅞	26¾	3⅞	5	.
Do Pfd.	107⅛	93⅞	108⅜	60	85	10½	12⅛	..
Missouri Pacific	101⅜	46	98½	20⅜	42¾	6⅝	7¼	..
Do Pfd.	149	105	145½	79	107	12	13⅜	..
N								
New York Central	256½	160	192¾	105⅛	132¼	24⅞	29	..
N. Y., Chic. & St. Louis	192⅜	110	144	73	88	2½	4	..
N. Y., N. H. & Hartford	132½	80⅞	128⅛	67⅝	94⅞	17	20⅝	..
Norfolk & Western	290	191	265	181½	217	105⅝	118	12
Northern Pacific	118⅞	75⅛	97	42⅜	60⅞	14½	16⅞	3
P								
Pennsylvania	110	72½	86⅝	53	64	16¼	17½	2
Pere Marquette	260	140	164½	76½	85	4	6	..
Pittsburgh & W. Va.	148¾	90	121¾	48½	86	11	11⅞	..
R								
Reading	147¾	101½	141½	73	97½	30	30½	2
Do 1st Pfd.	50	41½	50½	44⅛	46	28	28⅞	2
S								
St. Louis-San Fran.	133¾	101	118⅞	39⅜	62¾	3	3⅛	..
Seaboard Air Lines	21¾	9⅛	12⅛	½	1⅜	⅛	⅛	..
Do Pfd.	41⅜	16¼	28	⅛	2⅛	⅛	⅛	..
Southern Pacific	157½	105	127	88	109½	26½	28	4
Southern Railway	162½	109	136¾	46⅛	65⅞	6⅜	7	..
Do Pfd.	100	93	101	76	83	10	10¼	..
T								
Texas & Pacific	181	115	145	85	100	22	25⅛	..
U								
Union Pacific	297⅝	200	242¾	166⅛	205⅛	70⅛	71	10
W								
Wabash	81⅜	40	67⅜	11¼	26	⅞	1	..
Do Pfd. A	104⅞	82	89¼	39	51	1½	1⅝	..
Western Maryland	54	10	36	10	19⅝	5⅛	5⅜	..
Western Pacific Pfd.	67¾	37½	53½	23	31⅝	3	3⅞	..

INDUSTRIALS AND MISCELLANEOUS

	1929 High	1929 Low	1930 High	1930 Low	1931 High	1931 Low	Last Sale 12/30/31	Div'd $ Per Share
A								
Adams Express	34	20	37⅜	14¼	23⅛	3⅛	3⅜	..
Air Reductions, Inc.	223⅜	77	156⅜	87½	109⅜	47⅝	51	*4½
Allegheny Corp.	56½	17	35¼	5⅜	12⅜	1⅛	1¼	..
Allied Chemicals & Dye	354¾	197	343	170¼	182¾	64	69⅜	6
Allis Chalmers Mfg	75½	35⅛	68	31¼	42¾	10⅛	11¾	1
Amer. Brake Shoe & Fdry	62	40½	54⅝	30	38	13½	14	1.60
American Can	184½	86	156½	104⅝	129¾	58⅛	61⅛	*5
Amer. Car & Fdy	106½	75	82½	24⅛	38⅜	4⅛	5⅞	..
Amer. & Foreign Power	199½	50	101¾	25	51⅜	6⅛	7	..
American Ice	54	29	41⅞	24½	31⅝	10⅛	14	2
Amer. International Corp	96¾	29½	55⅜	16	26	5	5	..
Amer. Mchy. & Foundry	279¾	142	45	29⅜	43⅜	16	18¾	1.40
Amer. Power & Light	175¾	64¼	119⅜	36⅛	64⅞	11⅝	15¼	1
Amer. Radiator & S. S.	55⅝	28	39¾	15	21⅛	5	7	.60
Amer. Rolling Mill	144⅝	60	100⅞	28	37⅞	7⅜	8	..
Amer. Smelting & Refining	130¼	62	79½	37½	58⅛	17⅛	18¼	1½
Amer. Steel Foundries	79⅝	35¾	52¼	23⅛	31⅛	6	5⅜	..
American Stores	85	40	55½	36½	48⅛	33	34	2½

Price Range of Active Stocks

INDUSTRIALS AND MISCELLANEOUS (*Continued*)

	1929 High	1929 Low	1930 High	1930 Low	1931 High	1931 Low	Last Sale 12/30/31	Div'd $ Per Share
A								
Amer. Sugar Refining	94¾	56	69⅞	39¼	60	34½	36⅞	5
Amer. Tel. & Tel.	310½	193¼	274¼	170⅝	201¾	112⅛	117⅛	9
Amer. Tobacco Com.	232½	160	127	98½	128¾	60½	68	6
Amer. Type Founders	181	115	141¾	95	105	19	20	..
Amer. Water Works & Elec.	199	50	124⅞	47⅝	80¾	23⅛	28½	3
Anaconda Copper Mining	140	67¼	81⅛	25	43¼	9¼	9⅝	..
Arnold-Constable Corp.	40⅞	6¼	13¾	3⅛	9	1⅝	2⅛	..
Assoc. Dry Goods	70¾	25	50½	19	29⅝	5¾	6⅜	1
Atlantic, Gulf & W. I. S.S.Line	86⅞	32⅛	80⅝	33	39	10	10	..
Atlantic Refining	77⅞	30	51⅜	16⅝	23⅝	8⅝	9	1
Auburn Auto	514	120	263¾	60⅝	295½	84½	135	4
B								
Baldwin Loco. Works	66⅝	15	38	19⅜	27⅞	4⅝	4⅞	..
Barnsdall Corp. Cl. A	49⅛	20	34	8⅝	14½	4	4¼	..
Beech Nut Packing	101	45	70⅛	46¾	62	37½	39½	3
Bendix Aviation	104⅜	25	57⅜	14¼	25½	12⅝	17⅛	1
Best & Co.	60⅞	25	56¼	30⅜	46¼	19¾	22⅛	1
Bethlehem Steel Corp.	140¾	78¼	110¼	47⅜	70⅝	17¼	19	2
Bohn Aluminum	136¾	37	69	15¾	43	15½	19	1½
Borden Company	100⅛	53	90⅜	60⅛	76½	35⅛	38⅜	3
Borg-Warner	86⅞	26	50½	15	30¾	9	9¼	1
Briggs Mfg.	63⅛	8½	25⅜	12⅛	22¾	7½	8¼	1
Burroughs Adding Mach.	96⅞	29	51⅞	18⅝	32¼	10	11¾	*1½
Byers & Co. (A. M.)	192⅞	50	112⅜	33⅛	69¾	10⅞	12	..
C								
California Packing	84⅞	63⅛	77⅛	41¼	53	8	8¼	..
Calumet & Hecla	61⅞	25	33⅜	7¾	11⅜	3	3	..
Canada Dry Ginger Ale	98¾	45	75⅜	30⅛	45	10⅜	12	1.20
Case, J. I.	467	130	362¾	83⅛	131½	33¼	41⅜	..
Caterpillar Tractor	61	50¼	79¾	22	52½	10¼	11¼	2
Cerro de Pasco Copper	120	52¼	65⅜	21	30⅛	9⅞	11¾	1
Chesapeake Corp.	92	42⅛	82⅛	32¼	54⅛	13⅞	16½	3
Childs Co.	75⅞	44¼	67⅝	22⅞	33¾	5⅛	5½	..
Chrysler Corp.	135	26	43	14⅛	25¾	11⅜	13⅞	1
Coca-Cola Co.	154½	101	191⅜	133¼	170	97½	105½	*8
Colgate-Palmolive-Peet	90	40	64⅞	44	50⅛	24	27¼	2½
Colorado Fuel & Iron	78⅛	27¾	77	18⅜	32¼	6½	7½	..
Columbian Carbon	344	105	199	65⅛	111⅝	32	35	4
Colum. Gas & Electric	140	52	87	30⅝	45⅝	11⅝	13½	1⅛
Commercial Credit	62⅝	18	40⅜	15½	23¼	8	9¾	1.60
Commercial Solvent	63	20⅛	38	14	21½	6⅝	8½	1
Commonwealth Southern	24¾	10	20⅛	7½	12	3	3⅝	.30
Consolidated Gas of N. Y.	183¼	80⅛	136⅞	78¼	109⅝	57¼	60½	4
Continental Baking Cl. A	90	25¼	52½	16⅜	30	4½	5	..
Continental Can, Inc.	92	40⅛	71⅝	43½	62¾	30¼	35	2½
Continental Oil	47⅛	48	30½	7⅜	12	5	5¾	..
Corn Products Refining	126⅜	70	111⅜	65	86⅝	36¼	40½	3
Crucible Steel of America	121¾	71	93⅝	50⅛	63	20	22½	..
Cudahy Packing	67⅞	36	48	38⅛	48⅞	29	30¼	4
Curtis Publishing	132	100	126⅛	85	100	20	23	4
Curtiss Wright, Common	30⅛	6⅜	14⅞	1¾	5⅞	1	1¼	..
Curtiss Wright, A	37⅞	13¼	19¾	3	8½	1⅜	1¾	..
D								
Davison Chemical	69⅛	21¼	43⅝	10	23	3¼	3¾	..
Drug, Inc.	126⅛	69	87⅜	57⅝	78¾	42¾	53	4
Du Pont de Nemours	231	80	145¼	80⅛	107	50¾	56	4
E								
Eastman Kodak Co.	264¾	150	255¼	142⅛	185¾	77	80	*8
Eaton Axle & Spring	76¾	18	37¼	11⅝	21⅞	5⅜	5⅝	.50
Electric Auto Lite	174	50	114⅞	33	74⅜	20	30½	4
Elec. Power & Light	86⅝	29⅛	103½	34⅜	60¾	9	11½	1
Elec. Storage Battery	104½	55	79¼	47½	66	23	25⅝	4
Endicott-Johnson Corp.	83⅜	49¼	59⅝	36⅞	45⅜	23½	25	3
F								
Firestone Tire & Rubber	37	24½	33⅛	15⅛	21⅛	12⅞	15	1
First National Stores	90	44½	61⅝	38⅝	63	41	46½	2½
Foster Wheeler	95	33	104⅛	37½	64½	8	8⅝	..
Fox Film Cl. A	105⅝	19⅛	57⅜	16⅛	38⅜	2½	2½	..
Freeport Texas Co.	54⅞	23¾	55½	24½	43¼	13¼	16⅜	3
G								
General Amer. Tank Car	123½	75	111⅞	53⅛	73½	28	30	4
General Asphalt	94¾	42¼	71⅛	22⅜	47	9⅝	12	2
General Electric	403	168⅛	95⅜	41⅛	54¾	22⅞	25¼	1.60
General Foods	81¾	35	61¼	44⅜	56	28¼	33½	3
General Mills	89⅛	50	59⅛	40⅛	56	29⅛	30½	3
General Motors Corp.	91¾	33½	54¼	31⅛	48	21⅜	23½	3
General Railway Signal	126½	70	106⅞	56	84⅛	21	22⅛	2
General Refractories	88½	50	90	39	57⅜	12	13¾	1
Gillette Safety Razor	143	80	106⅛	18	38¾	9¼	11¾	..
Gold Dust Corp.	82	31⅛	47⅞	29	42⅛	14½	17⅜	2½
Goodrich Co. (B. F.)	105¾	38¼	58⅛	15¼	20⅞	3⅜	4	..
Goodyear Tire & Rubber	154½	60	96⅞	35⅛	52¾	13¾	17	3
Granby Consol. Min., Smelt. & Pr.	102⅞	46¼	59⅞	12	22⅝	5¼	5½	.50
Grand Union	32⅞	9⅛	20⅝	10	18⅞	7	7⅜	..
Great Western Sugar	44	28	34⅛	7	11⅞	5¾	6	..
Gulf States Steel	79	42	80	15	37½	4	4⅝	..
H								
Hershey Chocolate	143⅞	45	109	70	103¾	68	79½	6
Houston Oil of Texas	109	26	116⅞	29¼	68½	15¾	17½	..
Hudson Motor Car	92⅛	38	62⅞	18	26	7¾	10¼	1
Hupp Motor Car	82	18	26⅝	7⅛	13⅛	3¾	4¼	..
I								
Inland Steel	113	71	98	58	71	19⅞	19⅞	2
Inter. Business Machines	255	109	197⅛	131	179¾	92	104¾	6
Inter. Cement	102¾	48	75⅜	49⅛	62½	16	17	3
Inter. Harvester	142	65	115¾	45¼	60½	22⅜	24	2½
Int. Match Pfd.	102⅛	47	92	52¼	73¼	11	16¼	4
Inter. Nickel	72⅜	25	44⅜	12⅜	20⅛	7	7⅞	.20
Inter. Paper & Power "A"	112	57	31⅛	5½	10¼	1⅞	2	..
Inter. Tel. & Tel.	149¼	53	77⅜	17½	38¾	7⅛	8	.60
J								
Jewel Tea	84½	45	66½	37	57⅛	24	30⅞	*4½
Johns-Manville	242⅜	90	148⅝	48⅜	80⅜	15⅝	17⅛	1

New York Stock Exchange Price Range of Active Stocks

INDUSTRIALS AND MISCELLANEOUS (*Continued*)

	1929		1930		1931		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	12/30/31	Share
K								
Kennecott Copper	104⅞	49⅝	62¾	20⅛	31½	9⅝	10½	.50
Kresge Co. (S. S.)	57⅛	28	36⅝	26⅛	29⅝	15	15¼	1.60
Kreuger & Toll	46⅜	22⅛	35⅜	20⅜	27¾	4¼	5	1.61
Kroger Grocery & Baking	122½	38¼	48⅛	17⅛	35½	12½	14¼	1
L								
Lambert Co.	157¼	80⅛	113	70⅝	87⅞	40⅛	48¾	3
Lehn & Fink	68½	28	36	21	34¾	18½	19⅞	3
Liggett & Myers Tob. B	106	80¼	114¾	78¼	91¾	40	47½	*5
Liquid Carbonic	113⅞	40	81⅞	39	55⅛	13⅛	15½	2
Loew's, Inc.	84½	32	95¾	41¾	63½	23⅞	27	*4
Loose-Wiles Biscuit	88⅜	39½	70¼	40¼	54⅞	29⅞	29⅞	3
Lorillard	31½	14¼	28⅛	8¾	21⅞	10	12⅝	1.20
M								
Mack Truck, Inc.	114¾	55½	88½	33⅝	43⅞	12	13⅞	1
Macy (R. H.)	255½	110	159¼	81⅝	106¼	50	55½	3
Magma Copper	82½	35	52½	19¼	27⅝	7⅛	8	.50
Marine Midland	..	..	32½	17¾	24¼	9¼	9⅞	1.20
Mathieson Alkali	72¾	29	51⅜	30⅛	31⅛	12	15¼	2
May Dept. Stores	108½	45½	61⅜	27¾	39	15⅝	16¼	2½
McKeesport Tin Plate	82	54	89½	61	103½	38½	47¾	4
Mont. Ward & Co	156⅞	42⅝	49⅞	15⅛	29¼	6⅝	7⅜	..
N								
Nash Motor Co.	118⅞	40	58⅛	21¼	40⅞	15	16¾	2
National Biscuit	236¾	140	93	68⅝	83¾	36⅜	40⅜	2.80
National Cash Register A	148¾	59	83½	27⅝	39⅜	7⅛	7⅞	..
National Dairy Prod.	86⅛	36	62	35	50⅜	20	23	2.60
National Lead	310	129¼	189½	114	132	78½	82	*5¼
National Power & Light	71¾	23	58¾	30	44¼	10¼	14½	1
North American Co.	186¾	66½	132⅞	57¼	90¼	26	33½	§10%
O								
Otis Elevator	55	22¼	80⅜	48¼	58½	16½	19¾	2½
Otis Steel	55	22¼	38⅞	9⅛	16⅜	3⅛	3⅝	..
P								
Pacific Gas & Electric	98¾	42	74⅞	40⅛	54⅞	29⅝	35	2
Pacific Lighting	146½	58⅛	107⅞	46	69½	35	39¾	3
Packard Motor Car	32½	13	23⅜	7⅛	11⅞	3⅞	3⅞	.40
Paramount Publix	75½	35	77¼	34¾	50¼	5⅛	6⅜	§10%
Penney (J. C.)	105¼	66	80	27⅝	44¾	26¾	27½	2.40
Phillips Petroleum	47	24¼	44¾	11½	16⅝	4	4¼	..
Prairie Oil & Gas	65⅝	40½	54	11¼	20⅜	4⅛	5	..
Prairie Pipe Line	65	45	60	16⅝	26½	5⅞	6⅝	..
Procter & Gamble	98	43⅛	78⅞	52⅝	71¼	36¾	40	2.40
Public Service of N. J.	137¾	54	123¾	65	96½	49½	54¼	3.40
Pullman, Inc.	99¼	73	89⅜	47	58½	15¼	16½	3
Pure Oil	30⅜	20	27¼	7⅝	11⅞	3¼	3⅞	..
Purity Bakeries	148⅝	55	88⅞	36	55¼	10¾	12½	2
R								
Radio Corp. of America	114¾	26	69⅜	11⅜	27½	5⅛	5⅝	..
Radio-Keith-Orpheum	46⅞	12	50	14⅜	4	2⅜	2⅞	..
Remington-Rand	57¾	20⅜	46½	14⅛	19¾	1⅞	2¾	..
Republic Steel	146¼	62¼	79½	10⅛	25⅜	4⅛	4⅜	..
Reynolds (R. J.) Tob. Cl. B	66	39	58⅝	40	54½	32½	32⅞	3
Royal Dutch	64	43⅛	56½	36⅞	42⅝	13	14⅛	..
S								
Safeway Stores	195¼	90⅛	122¾	38¾	69½	38⅝	42¼	5
Sears, Roebuck & Co.	181	80	100⅝	43⅛	63¼	30¼	33⅝	2½
Shell Union Oil	31¾	19	25½	5⅛	10¼	2½	2⅝	..
Simmons Co.	188	59½	94⅞	11	23¾	6⅞	6⅞	..
Sinclair Consol. Oil Corp	45	21	32	9⅜	15⅞	4⅛	4⅜	..
Skelly Oil Corp	46½	28	42	10⅛	12⅞	2	2½	..
Socony-Vacuum Corp.	..	..	..	..	21	8⅜	8⅝	1
So. Cal. Edison	93¼	45⅛	72	40⅛	54⅛	30¾	30⅜	2
Standard Brands	44¾	20	29¼	14⅛	20⅛	10⅛	12⅞	1.20
Standard Gas & Elec. Co	243¾	73½	129¼	53⅛	88⅝	25⅛	29	3½
Standard Oil of Calif.	81⅞	51⅛	75	42¼	51¾	23⅛	24¼	2½
Standard Oil of N. J.	83	48	84⅞	43½	52½	26	27¼	*2
Stewart-Warner Speedometer	77	30	47	14¾	21⅞	4¾	5¼	..
Stone & Webster	201½	64	113⅜	37½	54⅛	9⅞	10⅜	2
Studebaker Corp.	98	38¼	47¼	18⅛	26	9	10⅞	1.20
T								
Texas Corp.	71⅞	50	60½	28¼	36¼	9⅞	10¾	2
Texas Gulf Sulphur	85¼	42⅛	67¾	40½	55⅜	19½	22	3
Tide Water Assoc. Oil	23½	10	17¾	5⅞	9	2⅛	2⅛	..
Timken Roller Bearing	139⅜	58½	89¼	40⅛	59	16½	18	2
U								
Underwood-Elliott-Fisher	181¾	82	138	49	78⅝	13⅝	16¼	3
Union Carbide & Carbon	140	59	106⅜	52½	72	27⅛	30¼	2.60
United Aircraft & Trans	162	31	99	18⅜	38⅞	9⅞	10¾	..
United Corp.	75½	19	52	13⅞	31¼	7½	8⅜	.75
United Fruit	158½	99	105	46½	67⅝	17½	21½	3
United Gas Imp.	59⅝	22	49⅜	24⅛	37½	15⅜	18½	1.20
U. S. Industrial Alcohol	243⅝	95	139⅜	50⅛	77⅜	20⅜	26⅝	..
U. S. Pipe & Fdy	55⅞	12	38¼	18½	37½	10	11⅝	2
U. S. Realty	119½	50⅛	75½	25	36¾	5⅛	5¾	..
U. S. Rubber	65	15	35	11	20⅝	3⅛	3⅝	..
U. S. Smelting, Ref. & Mining	72⅞	29⅞	36½	17½	25¾	12⅝	16⅛	1
U. S. Steel Corp	261¾	150	198¾	134⅜	152¾	36	38⅛	4
V								
Vanadium Corp.	116½	37⅛	143⅛	44⅜	76¾	11	13¼	..
W								
Warner Brothers Pictures	64½	30	80¼	9⅜	20⅝	2⅛	3¼	..
Western Union Tel.	272¼	155	210⅜	122½	150¾	40⅛	40¼	6
Westinghouse Air Brake	67¾	26½	52	31¼	36½	11	13½	2
Westinghouse Elec. & Mfg	292⅝	100	201½	88¼	107¾	22½	24	2½
White Motor	53½	27¼	43	21⅝	26¼	7⅜	8½	..
Woolworth Co. (F. W.)	103⅞	52¼	72⅝	51⅛	72⅜	35	39⅞	*4.40
Worthington Pump & Mach	137⅝	43	169	47	106⅞	15¼	19⅜	..
Y								
Youngstown Sheet & Tube	148	81	150⅛	69⅛	78	12	12½	..

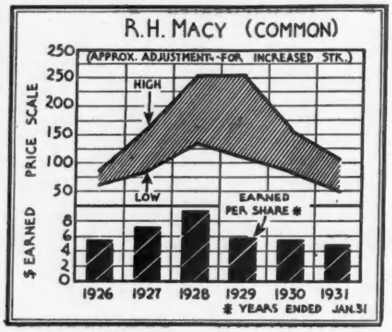
† Bid Price. § Payable in stock. * Partly extra.

(*Continued from page* 341)

R. H. Macy & Co.

THROUGH an admirable admixture of merchandising acumen, advertising, progressiveness and conservatism, R. H. Macy & Co. have built up one of the best known and most profitable department store businesses in the world.

Macy's has the public's attention to a greater extent than any other store. People like the slogan, "It's smart to be thrifty." They like to read in the morning paper of some new development in the perpetual war with its competitors. They like to test for themselves, Macy's contention that because the business is conducted solely for cash its merchandise is at least 6% cheaper than elsewhere. And the result is that there is always a crowd of shoppers in this particular store regardless of conditions elsewhere. Indeed, around Christmas time the crush is amazing even to a habitué of the Times Square subway station in the rush hour.



The present R. H. Macy & Co., incorporated in 1919, is the successor of a long established business. Following the post war depression of 1921, it began to expand. A substantial interest in the department store of La Salle & Koch Co. of Toledo was acquired and also an interest in the Davison-Paxon Co. operators of department stores in Atlanta, Ga. In 1929, Macy obtained control of L. Bamberger & Co. known throughout the country through its radio station WOR as "one of America's great stores." In addition, expansion has taken the form of enlarging the facilities of existing stores. The recently completed addition to the New York store has increased facilities by approximately 25% and the company believes that there would be no difficulty in handling an annual sales volume of $150,000,000 from this outlet alone.

Despite the depression, Macy's sales have been well maintained. For the year ended January 31, 1930, the combined sales of the company and its affiliates totaled nearly $148,000,000 against slightly more than $150,000,000 for the previous year. This small decrease is of course very much less than the decline in prices so that on a unit basis the showing would be reversed. Per-share earnings after the usual deductions were equivalent to $4.81 and $6.70 respectively. There are no interim figures available for the latest fiscal year. It is believed, however, that although the regular $3 dividend will be covered by a fair margin earnings will fail to equal the $4.81 shown for the previous twelve-month period.

It should be realized in appraising prospects that the period through which we have just passed can hardly be considered as indicating the future. Macy's, like all retailers, has been confronted with the difficulty of continually declining prices for its goods. Furthermore, there has been the added difficulty entailed in placing Bamberger's upon the same basis as the New York store in addition to the loss of revenue resulting from alterations to the property.

Such loss of sales and expense, however, is non-recurring and there is also reason to believe that the greatest decline in wholesale prices has already been seen. Under these conditions and with vastly increased facilities, the company's well-tried merchandising methods are likely to be still more profitable in the future than they have been in the past. While not particularly cheap on the basis of estimated earnings for the current year, Macy common at present prices of around $52 a share is not too high to preclude attractive appreciation in value if even part of its promise actually be fulfilled.

What's Ahead for Business in 1932?

(*Continued from page* 325)

covery should be rapid. In this respect 1933 probably is more promising than 1932. For the first quarter of this year the best that can now be anticipated is a sales volume well above that of the closing months of 1931, but 10 to 15 per cent below that of the first quarter of 1931.

Despite the present gloomy picture the 1932 outlook for the railroads appears better than that of 1931. To an overwhelming extent, loss of rail earning power is a direct reflection of general business depression. Conversely, aided by remarkable increases in operating efficiency, moderate business gains will be quickly translated into rising rail earnings. Moreover, confidence in rail credit is very likely at its low point and is subject to psychological appreciation. The pooling of higher rates for the benefit of the weaker roads already is in effect and 1932 is virtually certain to see a lowering of rail wages. Hence, even without early business recovery, the carriers in 1932 should be better able to cope with depression than was the case last year.

Moderate improvement in the copper industry is possible, even without major change in general business. The prospect, however, depends entirely upon the success or failure of the recent international agreement to restrict production. The slightly higher recent prices are due to this agreement, rather than to any increase in demand or to any statistical change yet effected. Even with the proposed curtailment of output, some time will be required to reduce present surplus stocks to a normal level.

Due to proration, particularly in Oklahoma and Texas, the petroleum industry has made considerable progress since last summer, when oil prices were at their worst. The foundation for this improvement, however, must be recognized as artificial and its maintenance will depend upon continued effective proration. An excess of shut-in production constitutes a "ceiling" to prices almost as much as does an excess of stocks above ground. As always, the greatest possibilities of change hinge upon exhaustion of present fields and development of new fields. These inherent, speculative factors are a bar to reliable forecast.

The 1932 prospect of the public utilities is relatively good, calling for a maintenance of stability in earnings as gradually increasing domestic demands partly offset the effect of industrial depression. Earnings of the average operating company should at least match those of 1931. It probably will be found that the bark of political

agitation against the utilities is worse than its bite. Utility costs have been substantially lowered. It would not be surprising if many companies took advantage of this to offset attack and win public favor by lowering rates.

The chemical industry not only is quickly responsive to gains in general industry, but still possesses potentialities of dynamic, internal growth, particularly in the synthetic field. For the latter reason, it is likely that a 1932 business volume duplicating that of 1931 would result in aggregate profits moderately higher than those of last year.

In such necessities as foods and merchandising, the most important generalization that can be made is that inventory problems in 1932 should prove much less serious than in 1931, since it is inconceivable that further decline in commodities can match either the speed or scope of last year's decline and since it is probable that price stability is near. Thus, the better managed companies may well experience larger profits.

Shoes Complete Cycle

Such lighter industries as shoes and textiles probably will not do as well in 1932 as in 1931. It is a curious economic phenomenon that both industries appear to have gone through a complete cycle in the last year, based on a necessary replacement demand, now substantially filled. It has been rather convincingly demonstrated that the movement is without related significance to the major business cycle.

The only industry experiencing major growth of demand as we enter the new year is that of mechanical refrigeration. In its aggregate economic effects it appears to be too small a factor to influence an underlying business revival one way or the other.

Whereas the last boom can be seen in retrospect to have had its inception largely in the making up of a war-time shortage in housing and in the rapid development of an infant automobile industry, no such specific, individual factors of stimulation are now present. Rather, we must anticipate a thoroughly interlocked, mass improvement, based in part upon the gradual expansion of business activity which always follows abnormal recession, and, perhaps more largely, upon more effective methods of meeting the conditions which confront us. That is to say, while in all probability 1932 will represent a year of business improvement there is little to sustain the view at present that its gains will be sensational. Rather we must content ourselves with a slow but salutary uptrend from the economic depths.

Market Ready to Go

(*Continued from page 321*)

and whether its application will be a matter of weeks or of months. In either event it should definitely bolster railroad credit. A voluntary agreement in the near future could scarcely fail to impart a notable bullish impulse to the stock market. The speculative benefit of a more belated adjustment would have to be postponed until later in the year.

Bond Action Is Favorable

The most favorable immediate financial circumstance is the greatly improved behavior of the bond market, which at the low point of December had depressed many sound issues to quotations out of all relationship to real values. It was this panic performance which probably contributed most to the fear gripping the stock market. At that time there was literally no bottom in bonds, for bids were withheld by banks in their desire for liquidity and even moderate liquidation caused sensational declines in price.

That such a situation could continue was, of course, not to be expected. It was pointed out in our preceding issue that it could be readily reversed by even a modest volume of buying. The banks now apparently have realized the impossibility of standing aloof and their bids have stabilized the market. One can now believe rather confidently that the present market has a bottom and that we probably have passed it.

It is of particular interest to note that in its actual proportions the recent rally in bonds was more extensive then that in stocks—the first time this phenomenon has been witnessed in the bear market. Likewise, in secondary reaction, recession in the bond market has been much more narrow than that in stocks. Maintenance of the present improved tone would do much to strengthen confidence and would act as a supporting influence in stocks.

There is no change suggested in the investment advice which we gave our readers in the two preceding issues of the MAGAZINE OF WALL STREET. We advocated the gradual, patient scale-down accumulation of a special list of twenty-four carefully chosen stocks. In this issue we recommend ten which we consider outstanding opportunities for purchase on current market dips. This policy of acquiring sound issues may be continued as the week-to-week fluctuation of the market justifies, with buyers holding in reserve a conservative portion of the funds they wish ultimately to have invested in common stocks. This advice presupposes the maintenance at all times of an adequate cash reserve in the bank, as well as, in the case of most investors, a backlog of sound senior securities.

Answers to Inquiries

(*Continued from page 356*)

WARREN BROS. CO.

With so much being done to relieve the unemployment situation, will not Warren Bros. Co. benefit from emergency Government construction work? Inasmuch as I intend to buy this stock, I would like to have your ideas relative to the future prospects of the company.—E. O. L., Summit, N. J.

Warren Bros. Co. is one of the leading enterprises engaged in the construction of street and highway paving, and manufactures bituminous paving, both directly and through licenses. It holds patents covering the laying of pavements under the "Warrenite-Bitulithic" process. In recent years, Warren Bros. Co. has received substantial foreign business, the most important being the construction of the Cuban Central Highway which was completed in the early part of 1930, in payment for which it accepted $11,300,000 of Cuban 5½% Treasury notes, maturing in 1935, on which no interest is payable until June 30, 1933. At the time of the payment, the company valued the above notes at 95% of par value, but present value is materially less, if we are to judge by prevailing quotations for Cuban Government obligations which rank senior to the above notes. With the completion of the above project, the company's foreign business has been reduced to a negligible volume, no foreign contracts being signed except in cases where payments can be made in cash, or where securities to be issued in payment thereof have been sold or financed. More recently, Warren Bros. Co. has made extra efforts to obtain domestic business, but little can be expected from this division, since appropriations for road building are likely to be materially reduced by local governments, and conditions in the bond market preclude the funding of such work during the early future, at least. In reflection of these conditions, directors deemed it advisable to omit dividends on the common stock, in order to conserve cash resources of the company. Pending definite indications that the downward course of earnings has been checked, we advise against accumulation of Warren Bros. common stock, which we look upon as a relatively unattractive speculation at this time.

Securities Analyzed, Rated and Mentioned in This Issue

Industrials

Mining

Public Utilities

Railroads

Important Corporation Meetings

Company	Specification	Date of Meeting
Canada Dry Ginger Ale, Inc.	Annual	1-11
Chicago Yellow Cab, Inc.	Annual	1-13
Continental Gas & Elec. Corp.	Annual	1-19
Cuban-Amer. Sugar Co.	Annual	1-12
Cudahy Packing Co.	Annual	1-12
Firestone Tire & Rubber Co.	Annual	1-12
Glidden Co.	Annual	1-21
Hygrade Food Products Corp.	Annual	1-19
Inter. Shoe Co.	Annual	1-25
Kelvinator Corp.	Annual	1-18
Lehigh Valley R. R.	Annual	1-19
Libby, McNeill & Libby	Annual	1-14
Libby, McNeill & Libby	Special	1-14
National Refining Co.	Annual	1-27
New York Central R. R.	Annual	1-27
St. Regis Paper Co.	Annual	1-13
West Va. Pulp & Paper Co.	Annual	1-19

Dividends and Interest

The Baltimore & Ohio Railroad Co.

OFFICE OF THE SECRETARY

Baltimore, Md., December 16, 1931.

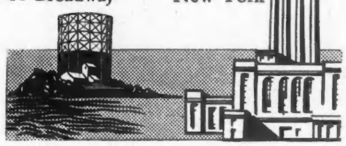
The Board of Directors this day declared, for the three months ending December 31, 1931, a dividend of one (1) per cent. on the Preferred stock of the Company, payable March 1, 1932, to holders of Preferred stock of record at the close of business on January 16, 1932.

The Transfer Books will not close.

G. F. MAY, Secretary.

A Message to Presidents:

Create investor confidence in your securities by publishing your dividend notices, when declared, in these columns. Such publication brings the investment features of your stock to the attention of of stockholders of record who read The Magazine of Wall Street consistently for financial guidance.



Dividends and Interest

NORTH AMERICAN LIGHT & POWER COMPANY

Common Stock Dividend

A dividend of 2% has been declared on the Common Stock, payable in Common Stock on February 15, 1932, to stockholders of record January 20, 1932, being at the rate of 2 shares for each 100 shares held. Scrip will be issued for fractional shares.

Preferred Stock Dividend

The regular quarterly dividend of $1.50 per share on the $6 Dividend Cumulative Preferred Stock for the quarter ending March 31, 1932, has been declared, payable April 1, 1932, to stockholders of record March 19, 1932.

CLEMENT STUDEBAKER, JR., President

D. H. HOLMES, Secretary

ALLIED CHEMICAL & DYE CORPORATION

61 Broadway, New York

December 29, 1931.

Allied Chemical & Dye Corporation has declared quarterly dividend No. 44 of One Dollar and Fifty Cents ($1.50) per share on the Common Stock of the Company, payable February 1, 1932, to common stockholders of record at the close of business January 11, 1932.

H. F. ATHERTON, Secretary.

Dividends and Interest

Peoples Gas Dividend

The Peoples Gas Light and Coke Company (of Chicago)

The Directors of The Peoples Gas Light and Coke Company have declared a quarterly dividend of two (2) per cent on the capital stock of this Company, being at the rate of eight (8) per cent per annum, payable out of the surplus earnings of the Company to stockholders of record at the close of business on the 4th day of January, 1932, said dividend to be payable on the 18th day of January, 1932.

A. L. TOSSELL, Secretary.

PACIFIC GAS AND ELECTRIC CO.

DIVIDEND NOTICE

Common Stock Dividend No. 64

A regular quarterly cash dividend for the three months' period ending December 31, 1931, equal to 2% of its par value (being at the rate of 8% per annum), will be paid upon the Common Capital Stock of this Company by check on January 15, 1932, to shareholders of record at the close of business on December 31, 1931. The Transfer Books will not be closed.

D. H. FOOTE, *Secretary-Treasurer*

San Francisco, California.

BAYUK CIGARS INC.

PHILADELPHIA

A quarterly dividend of 1¾% on the First Preferred stock of this corporation was declared payable January 15, 1932, to stockholders of record December 31, 1931. A dividend of 37½¢ per share on the Common stock of this corporation was declared payable January 15, 1932, to stockholders of record December 31, 1931. Checks will be mailed.

John O. Davis, *Secretary*

December 18, 1931.

MARKET STATISTICS

	N. Y. Times 40 Bonds	Dow, Jones Avgs. 30 Indus.	Dow, Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Monday, December 21	64.16	78.08	35.74	76.93	73.46	1,944,692
Tuesday, December 22	64.83	79.55	36.24	76.06	73.78	1,399,672
Wednesday, December 23	64.19	76.02	33.78	75.47	71.58	1,560,317
Thursday, December 24	63.90	75.84	33.72	72.91	71.04	1,106,103
Friday, December 25	HOLIDAY — EXCHANGE CLOSED					
Saturday, December 26	EXCHANGE CLOSED					
Monday, December 28	63.23	73.84	32.78	72.02	68.75	2,003,730
Tuesday, December 29	63.44	75.84	33.50	73.09	69.54	2,445,280
Wednesday, December 30	63.95	77.14	33.53	73.15	70.76	2,112,545
Thursday, December 31	65.53	77.90	33.63	74.34	72.04	1,508,700
Friday, January 1	HOLIDAY — EXCHANGE CLOSED					
Saturday, January 2	65.29	74.62	33.11	72.46	74.34	721,990

Need We Fear the Passing of the Gold Standard?

(Continued from page 328)

to a degree. The volume of imported goods would at best remain so small that there would be little opportunity for competing home producers to raise their home prices.

But What About Our Credits?

Our position as a creditor nation must not be overlooked in considering the consequences of deserting the gold standard. Our foreign credits were all made on the basis of the gold standard of values. If the dollar should depreciate all of them except those that are specifically repayable in gold could be liquidated and interest paid by the remittance of less gold or its equivalent. Suppose the dollar fell 10 per cent in its gold value: then our debtors could repay us with 10 per cent less gold than we gave them unless they were bound to repay in gold. But even if not bound, they would have a case in equity against us for demanding payment in a medium we had repudiated. Ten per cent off means a loss of a hundred million or two a year, and 2 or 3 billions in principal.

At home the exchange depreciation of the dollar might be expected to lead to some increase in prices particularly of exportable raw materials and foodstuffs. With gold removed from the picture, the temptation to issue a large volume of easy money treasury notes might be too much for Congress to resist. The inflation of prices would probably stimulate business, but insofar as it was caused by the issuance of paper money it would be equivalent to increased taxation.

For instance: suppose, as has been suggested, that the government issue unsupported paper money to pay for 5 billion dollars of public works. Nominal taxes might even be reduced but the cost of living would be increased in proportion to the resulting inflation of the currency, and the government would get its work done by what would be the equivalent of a universal consumption tax.

A revival of prosperity through greatly cheapened money might be worth the eventual price. That price would be in part paid by all bond holders and all persons with fixed incomes, as the purchasing power of their incomes as well as the value of their principal would decline. All salary and wage earners would be adversely affected during the inevitable lag between increased prices and increased pay. It would amount to a deflation of labor, concerning the benefits of which there would be wide differences of opinion. Agricultural producers, except as their prices are governed by the world market, would benefit if the crop gods helped.

If the country needs some inflation, on the theory that deflation has gone too far, it is worth noting that it can be brought about without going off the gold standard. Various measures proposed by the President or contemplated by Congress "on its own hook" already look in that direction. Others are available. We can have both gold and inflation. Less fortunate countries have to take their monetary "white mule" straight.

Gold Is Better Than Nothing

Conceding all that has been said in recent years in adverse criticism of the gold standard, it must be held that it is better than no generally accepted legal standard. It may be stated as a broad generalization that no nation has suspended the gold standard except under compulsion, directly or indirectly; that compulsion being its involvement in sterling credits or its inability to get or hold enough gold to meet domestic monetary and foreign exchange requirements. All of them expect to return to it at some time, whether at a new gold valuation of the monetary unit or not. Many of them will legalize a measure of debt repudiation by decreeing a lower parity. None expects that some other universal standard of values and prices can be evolved for many long years to come.

Despite retirement of so many nations from the gold standard by law or decree it is notable that it still remains the international standard of people and business; it is the one sort of money that is everywhere accepted without question. It seems that nobody thinks less of gold because England and 25 other governments are shy of it. Rather they think less of the goldless nations.

Every currency in the world that has been disassociated from gold by law is still measured in gold.

England is legally off the gold standard, for example, but it calculates the value of its currency in other non-gold currencies by comparing them with the gold it has in its vaults. The pound gold still outranks the pound sterling.

So long as the world in general was on the gold standard, fluctuations in exchange were minor and involved only a single calculation; now two calculations are necessary and the fluctuations are constant and frequently wide from day to day. The embarrassment of international trade, and also of domestic, under such circumstances requires no elaboration.

We had a comparable domestic condition in this country in the days when every bank issued its own money—bank notes. Every transaction involved an investigation, calculation and risky guessing. A common monetary standard is a good thing at home or abroad.

Off Gold to Get Back

The monetary convulsions the world is now experiencing are really an effort to reorganize international trade and financial relations so that the gold standard may again become operative by legal sanction.

Defenders of the gold standard say that gold did not in any way cause the present financial disturbances. Rather, they say, it was fundamental debt and credit mistakes and destructive international trade restrictions and a general wild financial whoopee that forced so many nations to give up that standard. Some nations borrowed too much, others loaned too much; some imported too much, and others exported too much In consequence some got too much gold and others were deprived of what they had. Some became bankrupt in the sense that they didn't have the sort of money other nations would accept in settlement of balances that should never have been allowed in such amounts.

The same sort of thing happens to individuals all the time. Some haven't or can't get enough cash to meet their obligations. They get extensions from their creditors or they go through bankruptcy. It is not money, but they or circumstances that are to blame.

Most of the nations are now painfully and with a morning-after head seeking to set their houses in such order that they will be able to accumulate enough cash—gold—to meet foreign and domestic trade requirements.

Paradoxically, going off the gold standard is one way of restoring it; so is bankruptcy or a creditor composition a way out for the "busted" debtor. Doing without gold contributes to the balancing of international trade. Every nation which is in a position analogous to that of a man who lacks cash, is taking steps to correct it. Exports (which bring in gold) are being pushed to the limit and imports (which withdraw gold) are being curtailed to the utmost. In this way the maldistribution of gold will eventually be corrected, and that evil can be further corrected by concerted international action.

Just what the United States would have of net gain by jumping into the currency mudhole into which others jumped in order to get the slipping over is of dubious quality and uncertain degree. Whatever the gain it seems that it could not offset the effects of inflation, unsettlement of debtor-creditor relations and the inevitable

shock to credit and confidence when both are already weak and halting.

Another consideration of a more intangible nature in favor of the United States staying on the gold standard is the world prestige of sticking by the only money standard that every human being still accepts. The effect of that prestige is to make the United States the financial capital of the world. Hitherto we have lent the world money but London has remained the actual clearing house. The function of administering the details of international financial transactions arising out of world trade has been worth 500 million dollars a year to England. Every day England stays off the gold standard the importance of London dwindles and that of New York grows. That is one of the reasons why England is now endeavoring to convince us that we should go off the gold standard. She wants us to do voluntarily and gayly what she was reluctantly and bitterly compelled to do. That is one reason why the run on the dollar was promoted in England and France. England wants us off the gold standard because she is off it. French bankers would like to see us off because France will stay on. They reason that if New York follows London into financial disrepute Paris will be in a fair way to become the world's financial center. But from our point of view these are very valid reasons for our adherence to the gold standard.

While the faults of the gold base are not to be minimized, it is the best we have of its kind right now, and it looks as if it would be a long time before the world will become intelligent enough to dispense with it.

An Expanding Future for Motor Trucks

(*Continued from page 335*)

be regulated so as to place the two forms of transportation on an equal basis. Although it is conceivable under present Congressional plans, this does not necessarily mean that the motor truck should be subjected to the same degree of regulation as the railroads. Nor does it mean that the railroads desire that owner-operated trucks used by many companies solely for their own business should be regulated.

An essential feature of the competitive equality which the railroads insist upon is that the rail carriers be allowed to operate trucks and buses themselves, under their own name, instead of the present necessity that they operate them in the name of a subsidiary or affiliated company. Coupled with this desire is the one that motor trucks be restrained from indulging in secret rebates and the granting of unjust discrimination in the matter of rates, services and practices as between different shippers.

In pleading for competitive equality with the motor truck the railroads are actually pleading for something which will stimulate the business of truck manufacturers more than they could hope for by the maintenance of present conditions. This is true because through regulation the motor truck operators would assume somewhat the stature of a public utility with a consequent increase of public confidence in them. In addition the fly-by-night truck operators and the financially irresponsible truck operators would be forced out.

But more important than these considerations is the one that if and when the rail carriers are permitted to operate trucks without restriction it will create a new and highly lucrative sales outlet for the truck manufacturers, providing the regulation of the independent truck operators is not so severe as to eliminate them from serious consideration as competitors of the railroads. That whatever regulation is put into effect would assume such a character is a most remote possibility.

Railroads Adopt the Truck

Though it is considered that regulation of the motor truck will result beneficially for all concerned it must not be inferred that in the interim the business of the truck manufacturers will remain static. Pending Congressional and various state legislative enactment of their wishes the railroads have during the past year especially taken some surprising and rather drastic steps to meet the situation, with seemingly happy consequences for the truck manufacturer.

An example of such action is that of the railroads in the southwestern part of the country in establishing store door pickup and delivery service in conjunction with the rail haul of less than carload freight, in an effort to regain traffic lost to trucks. Through this new service these carriers expect to recover 75 per cent of the lost traffic. This appears to be merely another step toward the eventual use of trucks by these railroads for the rendering of a complete transportation service on short haul freight at least. If truck operators can move freight economically and efficiently surely the railroads are capable of doing the same thing.

The railroads in the highly industrialized trunk line territory recently announced that they too were planning to institute a similar pickup and delivery service in connection with the

Dividend and Interest

JULIUS KAYSER & CO.

A dividend of Twenty-five cents (25c) per share upon the shares of the no par value common stock of Julius Kayser & Co., issued and outstanding, has been declared payable February 1, 1932, to the holders of record of such stock at the close of business January 15, 1932.

Dividend checks will be forwarded by The Bank of America, National Association, Agent for the Voting Trustees, with respect to shares held under the Voting Trust, and by Guaranty Trust Company of New York with respect to shares not so held.

CHARLES J. HARDY, Secretary.

rail haul of less than carload freight. Naturally, such action should have very much the same consequences only to a greater extent because of the much greater volume of freight moving in this territory.

There can be little doubt the outstanding development in the rail-truck problem is that four of the large railroads operating in the eastern part of the country have established a joint subsidiary company through which it is planned soon to operate a trucking service that will not entail the use of the rails for any part of the movement. This is of great significance because if it proves successful there is no doubt that it will be expanded and that other roads will adopt the practice. As a matter of fact it is understood that this is frankly being undertaken as an experiment, the results of which will greatly influence the future actions of the railroads. If the plan succeeds, as seems logical to suppose, there can be little doubt but that it will redound to the profit of the truck manufacturers.

An idea of the extent to which the railroads can extend their permissible truck services under present conditions is suggested by the fact that they are now employing only about 7,000 trucks, tractors and trailers. Thus with permission to operate trucks under their own name or without such permission there is in either case a rich field for the producers of motor trucks.

Higher Freight Rates

There can be little dispute that the cost of service has most often been a controlling factor in the motor truck's popularity. For this reason the several readjustments in freight rates that have taken place in the past year or so have raised rates in important parts of the country between 10 and 15 per cent and have undoubtedly exercised an influence upon the use of trucks. Added to this is the fact that the Interstate Commerce Commission granted certain increases to all rail carriers in the recent Fifteen Percent Case. It is likely that the full effects of these several rate increases have not yet been fully felt by the truck operators. But there are sound reasons for supposing that a certain amount of additional traffic will be diverted to them as a consequence.

The railroad's answer to this contention is that the rate increase will not result in such a wholesale diversion of traffic to the trucks as to offset the benefits to the railroads. They have figured that were a 15 per cent increase in rates granted it would require the employment of 400,000 additional trucks representing an investment of more than one billion dollars to handle the diverted traffic. The possible weakness in this argument is that truck operators might be able to supply a portion of such new capital. Assuredly the truck manufacturers can produce the trucks.

The temptation is strong to go much further in analyzing this problem, but the lack of space and the obviousness of much that would be said eliminates the possibility. However, there are a few important phases which at least deserve mention. One of these is that the hand-to-mouth buying of today means more merchandise moves in less than carload lots, which frequently means via truck. There are sound reasons for supposing that such buying will continue in many quarters when this depression has been forgotten in the activity of a new prosperity.

Possible Expansion

Another favorable factor for the truck is that industry is undergoing a gradual diffusion. Because this will bring plants closer to the markets they supply it will mean a reduction in the distance merchandise must be shipped. Thus the truck will again benefit, whether it be operated by the railroad, an independent common carrier or contract truck operator or by the manufacturing plant itself.

The United States Department of Agriculture invited speculation when it said, "motor trucks are handling approximately 15 per cent of the total shipments of fresh fruits and vegetables transported twenty miles or more to market." May not this percentage be raised considerably?

Interstate Commerce Commissioner Meyers not long ago stated that interurban trucks handled 2.8 per cent of the total transportation ten miles of the country. Though this figure is, for reasons too involved to mention now, rather deceptive it does indicate the truck can still expand its services a great deal.

The enterprise of truck operators is illustrated by mentioning that one company is planning a 40-hour motor truck service between New York and Chicago and another company has already carried many tons of freight from Los Angeles to New York in eleven days on a test trip preparatory to establishing a regular service. Though trucking over such great distances may not prove profitable this does indicate that every possible type of service is gradually being tried out.

Since motor trucks may now accept or reject business at will and since regulation may enjoin them from refusing certain kinds of freight it is barely possible this may prove a further stimulation to the sale of trucks.

In closing this discussion it is pertinent to comment briefly on the more immediate problems of the truck manufacturers. As matters stand now they are not able to employ mass production methods on a large scale because of the numerous types of trucks they must be prepared to produce. When state motor vehicle laws are made more uniform and when the purchasers of trucks are more willing to forego their desire for special type trucks mass production will be possible. Of course, this will make the cost of the truck less and the net profits greater.

A commendable point about truck manufacturers is that they have for long closely adjusted output to sales. No better indication of the caliber of the industry's management can be asked for than this.

Taking all of these factors into consideration the expanding future for the motor truck and bus industry is inescapable. With the pickup in general business conditions the leading companies in this field are destined for increasing profits and the strongest units in truck manufacture are worthy of the careful consideration of farsighted investors. No hectic period of boom prosperity is in sight but the prospects of a steady healthy uptrend during the next few years are bright.

Important Dividend Announcements

NOTE—To obtain a dividend directly from the company, the stockholder must have his stock transferred to his name before the date of the closing of the company's books.

Ann'l Rate		Amount Declared		Stock Record	Payable
$6.00	Allied Chem. & Dye Corp.	$1.50	Q	1-11	2-1
.30	Cities Service Co.......	.02½	M	1-15	2-1
Stock	Cities Service Co.......	½%	M	1-15	2-1
6.00	Du Pont de Nemours & Co. Deb.	1.50	Q	1-9	1-25
.50	Eaton Axle & Spring Co.	.12½	Q	1-15	2-1
2.50	Gold Dust Corp..........	.62½	Q	1-9	2-1
6.00	Hershey Chocolate Co...	1.50	Q	1-25	2-15
1.00	Kayes (Julius) & Co....	.25	Q	1-15	2-1
2.00	Liquid Carbonic	.50	Q	1-20	2-1
3.00	Macy (R. H.) Co........	.75	Q	1-22	2-15
Stock	Macy (R. H.) Co........	5%	Ext	1-22	2-15
2.00	Natl. Distillers Prod....	.50	Q	1-15	2-1
3.00	Pacific Lighting Corp...	.75	Q	1-20	2-15
2.00	Southern Calif. Edison..	.50	Q	1-20	1-15
1.00	United Lt. & Pwr. "A"..	.25	Q	1-15	2-1
1.00	United Lt. & Pwr. "B"..	.25	Q	1-15	2-1
3.00	Wrigley (Wm.) Jr......	.25	M	1-20	2-1

For Feature Articles

to Appear in

the Next Issue

See Page 315

At a Glance! Rating and Financial Position of 1600 Listed Stocks

THAT sounds like a big contract but thousands of other subscribers now know it. And here's how you too can know each month at a glance the rating and financial position of 1600 listed stocks before you buy and after you buy. You are impressed by the favorable financial position, earnings comparison and prospects of one or several selected companies discussed say in this number of The Magazine of Wall Street. But right now may not be the best time to buy the particular stock or stocks which appeal to you. How can you keep a close check on your selections while waiting for the more favorable buying opportunity? Also how can you keep watch every month for any promising or unfavorable developments affecting the stocks you now hold? You can do both simply by consulting for a few minutes each month our supplementary Statistical and Rating Service—"ADJUSTABLE STOCK RATINGS."

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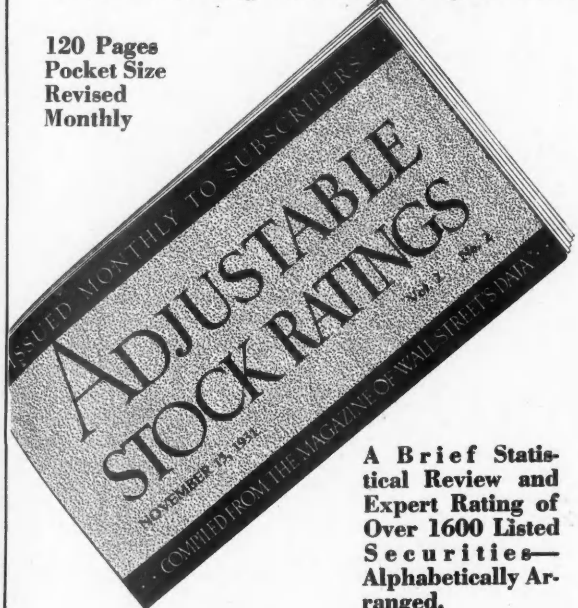

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IMPORTANT ISSUES

Quotations as of December 30, 1931

Name and Dividend	1931 Price Range High	Low	Recent Price
Aluminum Co. of Amer.	224	48	53
Amer. Commonwealth Pr-A (Stk. 10%)	17	⅛	1
Amer. Cyanamid B	12¾	2⅝	2⅞
Amer. Lt. & Tr. (2½)	54½	18½	19
Amer. & Foreign Pwr. War.	31½	3⅛	3½
Amer. Gas Elec. (1)	97½	32⅛	38⅛
Amer. Superpower	19⅛	3	4¼
Assoc. Gas Elec. "A" (Stk. 5%)	23¾	3½	3⅝
Brazil T. L. & P. (1)	28½	7	9¾
Central Stat. El.	12½	1⅛	1⅝
Cities Service (.30)	20¾	5	5⅝
Cities Service Pfd. (6)	84¾	35⅜	44⅝
Commonwealth & South War.	2¾	⅛	½
Cord Corp.	15	4⅜	7⅛
Deere & Co.	44¾	8⅛	9⅛
Durant Motors	3¼	⅛	⅜
Elec. Bond Share (6% stk.)	61	8⅜	11⅛
Ford Mot. of Canada A	29¼	8⅜	9
Ford Motors, Ltd. (.36⅜)	19⅞	3⅞	4⅞
Fox Theatre, A	6⅛	⅜	½
Goldman Sachs T.	11⅛	1⅜	1⅞

* Partly extra.

Name and Dividend	1931 Price Range High	Low	Recent Price
Gulf Oil	75½	25⅝	26⅞
Hudson Bay M. & S.	6⅝	1⅞	1⅞
Humble Oil (2½)*	72	44¼	44¾
Internat. Pet. (1)	15½	7⅜	9¼
L. I. Light (.60)	36¼	17	19½
Mid West Util. (8% stk.)	25¼	4¾	5⅛
Newmont Mining	58⅞	9⅛	11⅞
Niagara Hudson Power (.40)	15½	5½	6⅜
Niagara Hudson Pwr. A war.	3¼	9/16	9/16
North States Pwr. A (8)	152⅝	69½	76¼
Pennroad Corp. (.40)	8½	1⅝	1⅞
Public Util. Holding Corp. of Amer. (x war.)	6⅞	¼	½
St. Regis Paper	21½	2¼	3¾
Salt Creek Prod. (1)	7¾	2¾	3⅛
Standard Oil of Ind. (1)	38½	13½	14
Standard Oil of Ky. (1.60)	23⅝	12½	13⅛
Swift & Co. (2)	30⅝	14½	18
Trans Lux	13¼	1⅜	1½
United Founders	10¼	1⅜	1¾
United Lt. & Pow. A (1)	34½	5⅜	6½
United Gas Corp.	11⅞	1⅜	1⅞
U. S. Elec. Pwr. (w. w.)	8⅜	1	1¾
Utility Pow. & Lt. (10% stk.)	14½	1⅝	2⅜
Woolworth (F.W.) Ltd. (.17⅝)	12¼	5½	8⅛

Now Deflate Taxes!

(*Continued from page* 331)

purpose of relieving unemployment and restoring prosperity. The purpose is laudable but the means are deplorable. A billion or so of bonds to pay prudent government costs cut to the backbone will not give public credit a trace of a tremor. But borrowed money spent to purchase prosperity, which could return tomorrow without a drop of priming if economic conditions and popular psychology were right, will certainly lower esteem for government bonds, obstruct private finance, run up interest rates and pile up the burden of taxes.

As for the taxes that must be raised they should be as painless as possible, derived as much as possible from those who have fluid wealth, be well camouflaged otherwise and depression-proof. The idea of "soaking" the consumption of luxuries alone is foolish in theory and inequitable in practice. What is a luxury, any way in these days of varied needs and abundant production? To single out cigarettes and automobiles, say, for onerous taxation may be only to ruin some men and companies. It is like overloading one wheel until it breaks. The other wheels survive but the vehicle collapses. A thin layer of taxes over all is the least painful and the least depressive.

The proposed tax of 5 per cent on automobiles and of 3 per cent on trucks is indefensible and means curtailment of a vital industry which is tied in with the welfare of thousands of other industries and at least half of our population. It applies the destructive pressure of taxation at a vital spot. It might yield 75 or a hundred million dollars of revenue, but it would do many times as much damage to the industrial and commercial fabric. It would check production and curtail sales and might mean the difference between profit and loss to many sales and manufacturing companies. It would be far less oppressive to business to spread an equivalent amount of taxation over many industries.

A retroactive capital loss and gain tax is a perfect example of unfair and ruinous taxation. Happily, the thought of a federal gasoline tax has been abandoned, but only because the states have already applied it to the extent of devitalizing the goose that lays the golden egg. The gasoline tax is becoming self-extinguishing as it drives automobiles into retirement and reduces consumption.

An increase of 16 per cent in the tobacco-tax is another instance of excessive concentration of the tax burden. It means in the case of cigarettes that a package will realize half as much for the government as for the dealer. It means that the cigarette industry will be giving up half its time and capital to the production of taxes. The tobacco industry as a whole already pays more than two-thirds of the entire internal revenue (almost $500,000,000) equal practically to total customs collections. Paid amusement is a necessity of modern life. There is no good reason for taxing admissions 10 per cent and leaving scot free articles of commerce that are not so necessary.

The principle of taxing transactions as well as income is sound but its application should be broad in order to avoid inequalities and business repressions.

The defect in the proposals of the Treasury as well as of the Democratic organization in Congress is that they make the taxation base too narrow and the rates too high. It is easily possible to spread out the desired amounts so that they will be repressive to none and painless to most business activities.

Reason and justice point to a wide sales tax as the best supplement to increased income taxes in the higher brackets. But above all, taxes for the next two years should be reduced to the lowest possible point of increase compatible with sound public finance. An increase of taxation in a time of general decrease of income is maddening enough without increasing it a single unnecessary cent. Let us not add to the heavy burdens of the weary men and women who are keeping the economic machinery functioning in these distressful times!

How Leverage Affects Profit Prospects

(*Continued from page* 349)

the resulting exaggerated ups and downs of the residuary equity. It is the chief reason why common stocks are more speculative than bonds and preferred stocks of the same company.

Prospects of Faster Appreciation

Practical application of the theory of leverage lies in the supposition that common stocks which have declined severely in market price as a result of heavy leverage will rise more rapidly than stocks of little or no leverage when earnings again turn upward. Consequently it should be a wise move for investors to fill their portfolios with high leverage stocks near the bottom of a major bear market and business depression such as we are now experiencing. Other considerations being equal, this is probably true; but the difficulty is that other considerations seldom are equal. It usually happens, for example, that some industries are

much slower than others in recovering their earning power after a depression; and the amount of the recovery, when it does come, may not be at all commensurate with the previous decline.

In the two examples here presented we have managed, after a considerable search, to find two pairs of companies which suffered about equally in 1930, in order to eliminate extraneous factors so far as possible for purposes of judging the market effects of leverage. But it is much more difficult than might be supposed, until one tries it, to locate two companies, one with leverage and the other without, whose earnings have declined by approximately the same percentage, and where at the same time the stock with leverage has declined more than the one without leverage, as it is supposed to do according to theory.

Experience comes closer to theory in the investment trust field; because common stocks in this class tend to sell at a given time in fairly uniform proportion to their liquidating values, irrespective of earnings and dividends. This is partly due to the circumstance that many trusts maintain a reasonably close market for their own stock. They cannot well sell their own shares for much more than liquidating value, especially in a bear market; and, if the shares fall too far before liquidating value, there is a temptation for outsiders to seek control in the open market or through private negotiation with large holders.

In Example I, for instance, the stock without leverage sold at 71% of liquidating at the close of 1929, while the stock with leverage was priced at 76% of its liquidating value. The stock without leverage ended 1930, on the other hand, at only 58% of its liquidating value, while the leverage stock closed at 64%. These percentages seem to show: First, that an investment trust stock with leverage seems to command at all times a small premium over one without leverage, and second, that investors were in a much more pessimistic frame of mind at the end of 1930 than they were at the close of 1929. We would grasp this occasion to suggest, in fact, that *the average ratio of investment stock market prices to their liquidating values may turn out to be a very valuable index of the prevailing degree of confidence among investors.* In this connection it may be recalled that investment trust stocks sold much above their liquidating values near the crest of the great market boom of 1928 and 1929.

Turning now to the industrials stocks we enter a field where assets leverage is of no practical benefit in determining values, except in instances where a company is in process of liquidation. The market price of com-

Preferred Stock Guide

NOTE: The following preferred stocks are listed solely in accordance with the current yield on each. The sequence of Guide, therefore, does not indicate a preference for one issue over any of the others. Readers should observe a proper diversification of commitments in making their selections from this list.

Railroads

	Div. Rate $ per Share	Earned $ per Share 1928	1929	1930	Redeemable	Recent Price	Yield %
Norfolk & Western	4 (N)	133.73	182.20	138.50	No	68	5.9
Atchison, Top. & S. Fe	5 (N)	40.21	49.18	30.08	No	77	6.4
Union Pacific	4 (N)	46.32	49.48	41.30	No	60	6.7

Public Utilities

Pacific Gas & Elec. 1st	1½ (C)	4.24	4.57	5.25	No	25	6.0
Amer. Lt. & Traction	1½ (C)	17.20	21.38	20.71	No	25	6.0
So. California Edison "B"	1½ (C)	3.28	3.61	3.63	28¾	25	6.0
Public Service of New Jersey	8 (C)	§20.92	§24.44	§22.10	No	122	6.7
New York Steam Corp	6 (C)	9.75‡	10.21‡	16.95‡	105	88	6.8
New York Steam Corp	7 (C)	9.75‡	10.21‡	16.95‡	115	99	7.1
North American Co	3 (C)	40.22	47.48	47.51	55	41	7.3
North Amer. Edison	6 (C)	53.15	58.98	49.65	105	80	7.5
Buffalo, Niagara & Eastern Pr.	1.6 (C)	4.52	5.19	5.25	26¼	21	7.6
Philadelphia Co.	3 (C)	20.68	27.58	28.27	No	36	8.3
Columbia Gas & Electric "A"	6 (C)	30.78	33.95	26.86	110	69	8.7
American Water Works & El.	6 (C)	31.05	39.11	44.22	110	66	9.1
National Pr. & Light	6 (C)	45.38	50.22	45.16	110	65	9.2
United Corp.	3 (C)	....	4.66	6.46	55	32	9.4

Industrials

Procter & Gamble (2nd)	5 (C)	185.59	151.75	178.16	115	91	5.5
Stand. Brands, Inc., Cum. A.	7 (C)	123.40	129.41	111.03	120	115	6.1
du Pont (E. I.) de Nemours deb.	6 (C)	69.06	78.54	55.22	125	97	6.2
Hershey Conv.	†5 (C)	16.25	21.36	24.24	No	80	6.2
Mathieson Alkali Works	7 (C)	84.50	93.91	84.68	No	112	6.3
Diamond Match	1.5 (C)	....	....	....	No	23	6.5
Allied Chem. & Dye	7 (C)	68.63	76.88	63.90	120	105	6.7
Commerc. Investm. Trust 1st.	6½ (C)	45.50	81.92	90.87	110	97	6.7
General Mills	6 (C)	18.70	18.86	20.03	115	88	6.8
General Cigar	7 (C)	62.81	85.92	64.03	No	98	7.1
American Sugar	7 (C)	14.60	15.40	12.60	No	86	8.1
International Nickel	7 (C)	139.12	80.45	40.26	120(a)	82	8.5
Amer. Smelting & Refining	7 (C)	37.17	43.66	22.20	No	77	9.1
Curtis Publishing	7 (C)	21.48	23.93	21.25	120	73	9.6

C—Cumulative. N—Non-cumulative. § Earned on all pfd. stocks. † Regular rate, $4. (a) After Feb. 1, 1934. ‡ On combined preferred.

Over-the-Counter

IMPORTANT ISSUES

Quotations as of Recent Date

	Bid	Asked
Alpha Port. Cement Pfd. (7)	95	110
American Book Co. (7)	60	65
Amer. Dist. Teleg. (4)	48	58
Do Pfd. (7)	97	99
Amer. Manufacturing	5	10
Do Pfd. (5)	45	50
Amer. Meter Co. (3)	23	30
Babcock & Wilcox (4)	41	45
Bliss (E. W.) Co., 1st Pfd. (4)	..	57
Cl. B Pfd. (0.60)	9	..
Bohack (H. C.) Co. 1st Pfd. (7)	88	95
Bon Ami, B (2)	27	34
Colt Fire Arms (1½)	9	11
Carnation Co. (1½)	17	19
Do Pfd. (7)	100	..
Cleveland El. of Illum. Pfd. (6)	98	102
Congoleum Co. Pfd. (7)	100	102½
Clinchfield Coal	2	5
Do Pfd.	50	60
Crowell Publishing Co. (3)	43	45
Do Pfd. (7)	100	105
Detroit & Canada Tunnel	¼	⅜
Dixon (Jos.) Crucible (4)	60	70
Doehler Die Cast Pfd.	..	15
Dry Ice Holding	..	30
Fajardo Sugar	15⅝	16½
Franklin Rwy. Sup. (2)	..	40
Gt. Atl. & Pac. Tea Pfd. (7)	112	118
Herring-Hall Safe	15	25

	Bid	Asked
Howe Scale	3	6
Do Pfd.	17	22
Lanston Mono. (6)	64	65
Merck Co. Pfd. (8)	52	58
Metro. Chain Store	..	4½
Murphy (G. C.) Pfd. (8)	..	90
National Casket (4)	45	55
Do Pfd. (7)	92	96
Newberry (J. J.) Pfd. (7)	..	87
Ohio Leather (.25)	10	13
Do 1st Pfd. (8)	77	87
Remington Arms Pfd.	60	70
Ruberoid Co. (4)	33½	36½
Safety Car H. & L.	17	18½
Savannah Sugar (6)	48	56
Pfd. (7)	78	88
Singer Mfg. Co. (8)	117	125
Standard Screw (4)	25	35
Stetson (J. B.) Co.	7	11
Do Pfd. (2)	14	19
United Porto Rican	1	5
Pfd.	5	10
Wash. Ry. & Elec. (7)	350	450
Pfd. (5)	90	93
West Va. Pulp & Paper (1)	15½	17½
Do Pfd. (6)	87	90
White Rock 2nd Pfd. (20)	115	..
1st Pfd. (7)	95	99
Woodward Iron	2	6
Young (J. S.) (10)	80	89
Do Pfd. (7)	100	..

mon stock in a going concern bears no relation to its liquidating value. This is partly due to the fact that stockholders do not expect to receive the company's assets, and partly because no one knows the liquidating value of such assets, except that it is almost sure to be considerably less than the book value as shown on the balance sheet. Earnings leverage, on the other hand, is a somewhat better guide to investors in industrial common stocks; although many without leverage decline more than others with heavy leverage, even with a like percentage decrease in profits applicable to senior securities. The fact is that market prices of industrial stocks are influenced by a great variety of circumstances—logical and illogical—so that leverage is often a minor consideration.

As an Editor Sees It

(*Continued from page* 350)

We involve ourselves in this European system of constantly decreasing consuming power while attempting to increase production, under which there can be no improvement of the European situation.

Either western Europe must enter into economic or customs union, the British Empire constituting perhaps another unit in which it will be possible to increase wages, standards of living and consuming power by abandoning the battle of cheapness upon which foreign trade now rests, or we must isolate ourselves with respect to every commodity we can produce. The alternative is ruin. It seems to me that it is about time that the New York financial leaders who have brought this country to the brink of ruin by merging our solvent and going business with a lot of bankrupt political and economic systems, should begin to do a little thinking about the solvency and stability of their own country. If they do not do so, they cannot escape the common disaster.—GEORGE B. LOCKWOOD, President, *The Muncie Evening Press*.

Cutting Wages

Editor, READERS' FORUM:

The suggestion in your editorial in the issue of October 31, that salaries of Government employees be cut 20%, is excellent and comes at a time when relief from taxation is a very popular subject.

Sound ideas are often very difficult to put across with the public. This one, however, will go like a prairie fire. All it needs is someone to get it started. But it will have to be started by magazines or newspapers. Politicians will naturally find it too convenient to overlook the opportunity. I have been talking along this line for some time and find that the response from all sorts of people is always most cordial to the argument that the one large class who still have their jobs full time should not be paid a premium (in real wages) out of the pockets of those whose incomes have been drastically reduced.

Your editorial is the first mention of this idea that I have seen in print. May I suggest that it is worthy of being driven home by much fuller treatment. Among other phases of the subject, I am sure it would be interesting to your readers to see how much the country would save in taxes if such a cut in U. S. Government salaries were to work its way down through states, counties, cities and villages.—ALONZO KLAW.

The Russian Menace

Editor, READERS' FORUM:

I have read your article "World Factors Blocking International Recovery." Also, "The Cost of the War to United States." These articles have a very enlightening point of view on the Soviet situation as it will affect the United States and other countries of the world. I would like your comments on this matter in an early issue of your valuable Magazine.

Permit me to express my view of the situation as it seems to be unfolding itself as to the future. First that we will be swallowed up in an economic morass by Russian competition in 4 or 5 years if we do not take prompt steps to circumvent such a catastrophe. Secondly, as to a method of overcoming it, it seems to me that the only way to succeed in such an undertaking is to make the public thoroughly cognizant of the situation confronting the American producer, and offset the Russian at his own game before he gets going.

Produce such a surplus in our own country that it can be sold throughout the world for less than the Russian can produce it even with conscript labor, in Russia. It seems that we in the United States have the machinery, both in Labor and Capital to do it.

"Speed It Up NOW."—H. R. FARINGER, M. D.

Capitalism

Editor, READERS' FORUM:

On page 33 of the issue of THE MAGAZINE OF WALL STREET, dated October 31, 1931, there appears a letter "Partnership of Capital and Labor" by J. P. Snow.

In speaking of Capital, the author of that letter seems to take the view of Calvin B. Hoover, in "The Economic Life of Soviet Russia," viz.—"One of the greatest obstacles to the successful operation of industry under a system of Communism or Socialism has been supposed to be the difficulty of obtaining sufficient capital funds for investment in industry, in order that the yearly depreciation and obsolescence of the capital equipment could be made good, and sufficient addition to capital equipment made to provide for the normal increase in population; it is obvious that if the total productivity of a country is not to decline, the amount of capital saved each year must provide at least this minimum amount of capital. It has been generally said that even this minimum amount of capital would not be provided in a communistic or socialistic state. Under our present system of inequality of distribution of wealth and income, saving takes place, in a large measure, through the more or less painless abstinence of persons of great wealth; thus, if a person has an income of, say, one million dollars it is obvious that he would normally save a considerable part of his income automatically, since his needs and desires could probably be satisfied by some sum far short of one million dollars per year. On the other hand, if income were evenly divided, or even if the inequality of distribution of wealth and income were substantially less, saving would be greatly reduced, since persons who had formerly had incomes entirely inadequate to satisfy their desires would now have their incomes increased, but the increase would fall far short of fulfilling all their wants, while the automatic saving on the part of individuals with very large incomes would disappear."

If Mr. Hoover's view that capital comes from the overflow from a comparatively few large incomes is correct, is it not strange that so many of the large corporations in the United States show in their reports that they have very few large stockholders, but that the ownership of their capital stock is split up among many small investors? Pick up the reports of almost any large transportation, public utility, or industrial enterprise and note that special stresses laid on the fact that small shippers, customers, and employees form an appreciable percentage of the number of shareholders. Possibly this same distribution may not apply to securities covering the funded debts; but savings banks and insurance companies are large investors in such securities, which is only another way of saying that the original source of such capital is from the savings from small incomes, to a great extent.

Is it not nearer the truth that the overflow from the unspendable incomes is reinvested, too often, in close corporations of a purely financial nature, whose function is that of a toll-gate through which the collective small capital passes on its way toward truly productive uses, leaving, in its passage, substantial fees with the toll-gate keepers?

Is it not this system that tends to segregate money and the power that money gives, in the hands of a few? And should we not quarrel with this system of parasitical toll-gates, rather than with the "Capitalistic System" itself?

The writer is of the opinion that it is not so much the "Capital" that is at fault as those who seize upon and manage capital for their own selfish motives and personal gain.

Today, a strict watch is kept on the final rate of return to the stockholders of large corporations of a public nature; but is it not true that there still exist many ways, for a few men, in favorable positions, to "bleed the pipe line" through the medium of privately owned financial concerns, purchasing combines, construction and engineering companies, advisory bureaus, advertising, etc.?

Before we assume that the "Capitalistic System" itself is at fault, would it not be better to make sure that the management of the system, and the corporations that it has brought into being, are in the hands of those who are loyal to the real sources of capital?—CHARLES JAY SEIBERT, Rio de Janeiro, Brazil.

Paving the Way for Railroad Recovery

(*Continued from page 345*)

of obligation. But this year and next, or until there is a big improvement in railroad earnings and a big and sustained advance in railroad securities, that has at its foundation a restoration of confidence on the part of investors and of credit on the part of the railroads, the latter will need still more help than can be supplied through the increased freight rates and reduced wages.

New Financing Difficulties

Reference is made to the obligations maturing this year and next. The Bureau of Railway Economics at Washington has placed bond maturities in 1932 at $181,000,000. With short term notes, aggregate maturities for that period are placed at between $243,000,000 and $254,000,000.

With the present low level of rail-

road earnings and of prices for railroad stocks and bonds, and with railroad credit so greatly impaired, even the largest and stronger systems could not carry through refunding operations by the sale of securities. The fact is, there is no real market for those securities, except at present quotations, which seem almost unbelievable.

Until these conditions improve considerably the railroads must have help with their refunding. There is under consideration by Congress a new organization to be known as the Reconstruction Finance Corp., which is intended to help the banks with their frozen assets and the railroads with the refunding of their maturing obligations, until they can do this alone through the usual sale of securities. Through this corporation, the government would make loans to the railroads for the purpose indicated.

Emergency Averted

The latest advices from Washington have given ground for belief that such a medium of relief is likely to be authorized by Congress. If it is, and with deficits in fixed charges provided for from the proceeds of increased freight rates and with at least $150,000,000 added to net railway income from the proposed reduction in unionized wages, the grave emergency with which the railroads have been confronted for some time would seem to have been averted.

In a statement recently made public in behalf of the railroads net railway operating income for 1931 was estimated at $534,000,000. This is about $34,000,000 in excess of aggregate fixed charges of the carriers. This balance, of course, represents the amount earned toward dividends complete in the case of Norfolk & Western and Chesapeake & Ohio common, but only partially in the case of much larger systems.

The Railroad Credit Corp. will not be in funds from the contributing railroads in time to help any carriers that may not be able to make their January 1 fixed charges in full. While the corporation has no power to borrow money except for its own operating expenses, Daniel Willard was quoted in a Washington dispatch recently as having said that an arrangement had been made whereby the banks would advance money temporarily to the Railway Credit Corp. to help roads with their fixed charges until the corporation receives sufficient funds from the contributing roads for this purpose. It is understood that the plan provides for the issuance by the corporation of a certificate of approval of an application for help, which would be accepted by a friendly bank as collateral for the short term advance, which would be paid by the corporation as it received money from the contributing railroads.

With such a change in the situation, and if there are to be no further railroad receiverships this year, recent prices for many railroad stocks and bonds should be regarded as absurdly low.

Charles Benedict Says

(*Continued from page* 329)

practicality, of keen understanding both of the problems which confront business and the intricacies of the foreign situation. This is no time for experiment.

We must be on guard against the convention of bargaining political leaders who play the game for livelihood and are too short-sighted to see that such tactics today would only bring ruin down about their ears. We have had too many puppets and figureheads of their choosing. The time is ripe for emergence of a real leader. There are such men in America. Public opinion should seek them out. The best must be found.

For Profit and Income

(*Continued from page* 347)

to enforce it. Without wishing to start an argument, we have it on good authority that bootleg liquor can be obtained by one who knows the ropes in certain of the more depraved centers of population. For similar reasons and in a similar way bootleg gasoline can also be obtained, and this is rapidly becoming an important problem for the big oil companies. Very extensive bootleg exchange operations are being carried out in foreign currencies. Incidentally, if remittances actually *are* being made, it would be interesting to know how some of our large companies obtain funds from certain South American countries where such a thing is against the law except under impossible restrictions—and how much have they to pay for the privilege. In other parts of the world there are bootleg security exchanges and if by any chance they closed the New York Stock Exchange undoubtedly we would have one here. Should the increased taxation on cigarettes and other tobacco products go into effect there will be even more extensive bootlegging operations in these products than exists at the present time.

All this leads up to the point that bootlegging in one form or another is rapidly becoming "big business," if it is not that already, and that every bootleg sale means just that much less for legitimate enterprise. Moreover, legitimate enterprise is doubly hit because not only does it lose the sale but it pays the tax that the illegitimate competition was created to avoid. The penalty of excessive taxation is law evasion.

Trade Tendencies

(*Continued from page* 352)

levels anticipated a few months ago, the only placements having been for experimental frames and bodies, in addition to current hand-to-mouth manufacturing requirements. The largest manufacturer of low priced cars, producing in normal times over 40 per cent of all vehicles, is expected to announce that a new model low-priced eight-cylinder car will enter production. Such a program, however, would require nearly three months before the requisite tooling facilities could be installed. The outlook appears to indicate therefore that a near term material increase in activity may be indefinitely postponed. Only two companies at present are operating with moderate activity, and the new models soon to be released by other companies could divert demand from these products. In Detroit the unemployment situation is serious, as 150,000 automobile workers are now without work, and this condition is expected to last throughout the winter. With prices reduced and at low production levels the next three months' operations of the automobile industry will probably result in greatly reduced profits.

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